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NORTH-SOUTH DIALOG: PROGRESS AND PROSPECTS

COMMITTEE ON FOREIGN AFFAIRS
HOUSE OF REPRESENTATIVES
NINETY-SIXTH CONGRESS
SECOND SESSION
MAY 1, 13, 15; AND JUNE 19, 1980

HEARINGS

BEFORE THE
SUBCOMMITTEES ON INTERNATIONAL ECONOMIC
POLICY AND TRADE
AND ON
INTERNATIONAL ORGANIZATIONS
OF THE
COMMITTEE ON FOREIGN AFFAIRS
HOUSE OF REPRESENTATIVES
NINETY-SIXTH CONGRESS
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NORTH-SOUTH DIALOG: PROGRESS AND PROSPECTS

THURSDAY, MAY 1, 1980

HOUSE OF REPRESENTATIVES, COMMITTEE ON FOREIGN AFFAIRS, SUBCOMMITTEES ON INTERNATIONAL ECONOMIC POLICY AND TRADE AND ON INTERNATIONAL ORGANIZATIONS,

Washington, D.C.

The subcommittees met at 2 p.m., in room 2200, Rayburn House Office Building, Hon. Jonathan B. Bingham (chairman of the Subcommittee on International Economic Policy and Trade) presiding.

Mr. BINGHAM. The Subcommittee on International Economic Policy and Trade and the Subcommittee on International Organizations will be in order.

In August, a special session of the United Nations General Assembly will convene for the purposes of launching a round of global negotiations on economic cooperation and development and adopting an international development strategy for the 1980's. Preparations for the special session are now in progress, amid serious skepticism both about the prospects for accomplishment and about the seriousness of U.S. intentions.

Many fear that the special session will be mostly another rhetorical confrontation, rather than an attempt to improve the global economic system to everyone's benefit. And many say that, from a domestic point of view, the time could not be more inauspicious for the United States to make a serious attempt to deal with Third World economic demands.

I think the latter point of view fails to recognize that we are—or should be—engaging in north-south dialog because it is in our own national interest, not because we are trying to give something away to the south. Our dependence on Third World energy sources and the increasing importance of Third World markets for improving our export performance are only two of the more obvious ways in which our economic well-being and our broader national interests are tied to our relations with the south. Mutually beneficial relations between north and south have never been more important to both than they are now.

Today the joint subcommittees launch a series of hearings on the north-south dialog designed to assess our Government's preparations for the special session, to evaluate U.S. policy on north-south economic issues more generally, and most important, to contribute to defining the U.S. interest in the dialog and to identifying the kind of international economic order that both north and south will see as in their interest.

At this point, I would like to submit for the record the opening statement prepared by my cochairman, the gentleman from Washington, Don Bonker.

[Mr. Bonker's opening statement follows:]

OPENING STATEMENT OF HON. DON BONKER, CHAIRMAN, SUBCOMMITTEE ON INTERNATIONAL ORGANIZATIONS

I am pleased to be a part of these joint hearings on the North-South Dialog. My colleague, Chairman Bingham, is to be commended for his leadership in advocating constructive U.S. proposals in global economic negotiations.

In 1975, the International Organizations Subcommittee held a set of hearings similar to the series we are beginning today. I am told that this effort helped to bring about a more conciliatory and responsive U.S. position in international negotiations that year. In August of this year the UN General Assembly will be meeting again in a special session to start a new round of global negotiations on some very difficult issues, and to develop a program of action for the Third Development Decade.

At the moment, Congress is preoccupied with election year politics and budget-cutting fever. Within this climate, few politicians this year are likely to embrace proposals for major increases in development assistance, removal of protective trade barriers, or debt relief for developing countries. But this should not deter us from devoting serious thought to North-South issues. The U.S. has a vital stake in the outcome of ongoing global negotiations. We cannot call a "time-out" when our national security is linked so closely to developments in the Third World. We cannot stimulate the U.S. economy alone when we are so dependent on developing countries for export markets and for access to important raw materials. Also, we cannot ignore the strong moral imperative inherent in what we stand for as a nation in combatting worldwide poverty and hunger. The vitality of our society and strength of our influence in world affairs depends on our ability to work collectively to resolve troublesome issues which are affecting North and South alike. Perhaps the Brandt Commission summed it up best by saying that the search for solutions to tensions in relations between North and South is not an act of benevolence, but a condition for mutual survival.

Some have viewed the North-South Dialog as a meaningless cliché that does not correspond to the complex relationships which nations have today. Others have not been able to detect any "dialog" whatsoever, and see rhetoric continually outweighing reason. However, the fact is that serious negotiations have occurred over the past few years with perhaps mixed, but meaningful results. Congress recently approved a wide range of measures which resulted from the Multilateral Trade Negotiations. Just a few days ago, Chairman Bingham's Subcommittee, on which I also serve, favorably reported out legislation providing \$88 million for U.S. participation in an International Rubber Agreement.

Perhaps this is being too optimistic, but I seriously hope that the U.S. delegation to the UN Special Session will put forward some imaginative and responsive proposals and then will follow through with them. During the course of these hearings, I look forward to learning more about what has been achieved thus far, and the agenda which remains now before us. I am pleased that we have been able to have such able witnesses with us today, and I look forward to hearing their testimony.

Mr. BINGHAM. I am particularly pleased to welcome to the subcommittees Hon. John Gilligan, former Governor, former colleague of ours, former head of AID, and current chairman of New Directions.

We are happy, Governor, that your leadership on these issues has not diminished since you left the Government and we appreciate your willingness to share your views with us.

I will introduce the other witnesses at a later point. Will you proceed, please?

STATEMENT OF HON. JOHN J. GILLIGAN, CHAIRMAN OF THE BOARD, NEW DIRECTIONS

Mr. GILLIGAN. Thank you, Mr. Chairman and members of the subcommittees. It is a great personal pleasure for me to be here

today in the company of such distinguished fellow panelists as Mr. Cline and Mr. Fishlow to discuss what is, by all odds, an extremely serious challenge, and a most impressive opportunity, it seems to me, for the United States.

We are here to discuss with you the possibilities inherent in the upcoming United Nations special session and in the preparatory steps that the U.S. Government might take before that dialog opens in a few months.

Mr. Chairman, I have a prepared statement which I will, with your leave, submit for the record and then attempt to just offer a few verbal comments and leave the rest of the time for people more expert than I, my colleagues.

Mr. BINGHAM. Without accepting your characterization, we will be happy to accept your statement for the record.

Mr. GILLIGAN. Thank you, Mr. Chairman.

Needless to say, the times are rather inauspicious for concerted attention by industrialized nations to the issues dividing the north and south. The United States and other industrialized nations are preoccupied with perplexing and seemingly intractable domestic economic problems and the threat of a new cold war.

Congress and the American people seem determined to reduce Government spending, and international programs, therefore, become a prime target. At the same time, Mr. Chairman, the problem of hunger and poverty in the developing world is serious and growing and must take a central place in the north-south dialog.

The major recommendation of the Presidential Commission on World Hunger is that, and I quote: "The United States Government must make the elimination of hunger the primary focus of its relationships with the developing countries, beginning with the decade of the 1980's."

Tragically, it appears that the United States is sharply reducing its development assistance efforts in the name of fiscal austerity. We are facing a serious problem in congressional politics and public education that must be addressed, and quickly, in order to reverse this trend.

In addition, it seems to me, Mr. Chairman, we must consider constructive new approaches to the problem of technology transfer, investments, the global commons, the conduct of transnational enterprises, the problem of refugees all over the face of the globe, the global environment, and all of the other interrelated issues that cry out for concerted action.

The report of the Brandt Commission contains many provocative proposals for addressing these problems. Perhaps most important, however, is that developed and developing nations must seek new methods to arrive at mutually beneficial changes in the existing international economic system.

John Sewell and John Mathieson of the Overseas Development Council have written recently that:

Currently negotiations are hampered because international institutions are either dominated by the rich countries, as in the case of the International Monetary Fund, or by the poor ones, such as the UN Conference on Trade and Development, or like the UN General Assembly, because they include so many participants that detailed negotiations are cumbersome.

EARNEST APPROACH TO NEGOTIATIONS

We need to change our perceptions as well as our procedures and be much more willing than in the past to consider innovation in the rules and institutions that regulate north-south economic relationships.

This change of attitude will require an entirely different approach to the special session negotiations on the part of the United States.

Mr. Chairman, in the prepared text I went on to quote from a very eloquent speech delivered in the United Nations 5 years ago by now Senator Moynihan on behalf of Secretary of State Kissinger, and one can hardly quarrel with a line or a phrase of that speech. The problem is that once the speech was entered into the archives of the U.N., there was little or no followthrough.

It appears to me that part of the problem involves our own procedures for approaching these negotiations or discussions. If the United States is to present during the course of the special session or at any of the preliminary or ancillary meetings connected therewith, a real program of action, moving from the position of dead center which we have occupied now for at least a decade, it is necessary that we begin now to formulate those positions and discuss those new policies, and that raises the question of the role that the Congress intends to play in this policy formulation process.

Traditionally, it would seem that the Congress has waited until the administration presents to them a negotiating package in a more or less pro forma manner which is then approved, at least tacitly, and then the matter is taken into the bargaining arena of the U.N., or other international forum.

Obviously, that process is not one that lends itself easily to any dramatic changes in previous policy. Change requires far more deliberation, far more consideration, far more discussion in the legislative as well as the executive branch and it, therefore, seems to me that there are two stages in the process:

One is to have the Congress satisfy itself, especially the committees most deeply involved in foreign relations, that the position of the United States, or the position that we would advance during this special session, is in accord with what we believe, what the Congress believes, should happen in the international arena in the years and months ahead.

Second, if there is to be any departure from established positions already adopted by the United States over the past years, some prior consultation would be required with the group B nations so that they would be aware that the United States intended to move off dead center, and move in some of the directions which many of them have long advocated. We have learned in recent weeks at our own peril of what may happen when we take unilateral action without prior consultation with our friends and allies in the OECD nations.

It appears to me, Mr. Chairman, that the recently developed structure within the executive branch of Government known as the International Development Cooperation Administration might provide a useful device for conducting these kinds of consultations between the executive branch and the Congress. And so that no

department of Government would dominate the discussion to the exclusion of the other, we might look to IDCA's new Director, Mr. Ehrlich, to lead those discussions on the part of the Administration.

This kind of approach was successfully employed in the recently concluded multilateral trade negotiations. The Office of the Special Trade Representative organized a series of advisory committees with different responsibilities, some taking a broad perspective, about 40 others advising the administration on particular aspects of the trade talks and their impact on specific sectors of our economy. Over 1,000 individuals were systematically consulted at every step of the negotiations. It was a triumph of democratic policymaking at a time that was less than auspicious for trade liberalization. It thus seems especially appropriate to the approaching dialog at this difficult moment.

It occurs to me, Mr. Chairman, that such an approach, together with very careful and continuing consultations with the appropriate committees of the Congress, might be strongly urged upon the administration at this point.

[Mr. Gilligan's prepared statement follows:]

PREPARED STATEMENT OF HON. JOHN J. GILLIGAN, CHAIRMAN OF THE BOARD,
NEW DIRECTIONS

Mr. Chairman and members of the subcommittees, it is a pleasure for me to be with you today to discuss the North-South dialog and particularly the upcoming United Nations Special Session.

Needless to say, the times are rather inauspicious for concerted attention by the industrialized nations to the issues dividing the North and South. The United States and other industrialized nations are preoccupied with perplexing and seemingly intractable domestic economic problems and the threat of a new cold war. Congress and the American people seem determined to reduce government spending and international programs are a prime target.

There are several reasons, however, why a forthcoming U.S. approach to the North-South dialog is in the national interest of the United States. The economic interdependence of the industrialized and developing countries is steadily increasing. Our twelve fastest-growing export markets are all developing countries. The Third World is becoming the new growth frontier for the world economy. We will not be able to solve our global economic problems without the active involvement of the developing countries.

Meanwhile, the problems of poverty and hunger, debt and financial instability continue to grow and threaten us all. The use of force is becoming increasingly irrelevant to the pursuit of our national interest; the recent fiasco in Iran is a case in point. U.S. interests can be promoted much more effectively by establishing mutually beneficial relations with the developing countries.

Several issues in the North-South dialog deserve special attention. We need to put international commodity trade on a more rational basis. Too often, the North has wrongly viewed commodity stabilization agreements as concessions to the South. In fact, the evidence suggests that the largest measurable economic benefits from such agreements would be gains for the industrialized countries because of reduced inflationary pressures.

The United States should adopt a much more constructive approach to the full range of commodity discussions, especially those involving the Common Fund. We should also adopt a leading role in food negotiations because of our pre-eminent role in this sector. Congress can help by quickly adopting the Food Security Act, which establishes a 4 million ton wheat reserve for use in extraordinary humanitarian emergencies in the developing countries.

We should also lead the search for constructive new approaches to the international energy problem. Too often, the proposals of the North have called for substantial obligations on the part of the oil-producing nations with regard to price and supply, and precious little in the way of obligations by the oil-consuming countries.

We must respond as well to the urgent and growing problem of international debt, especially the public and private debts of the non-OPEC developing countries. These countries have increased their external debt from \$142 billion in 1974 to \$315

billion in 1978; that could rise by 1985 to an astonishing \$650 billion. The International Monetary Fund is under increasing strain because of the demands placed upon it and increasing attack because of the enormous human impact of the austerity programs it imposes. Clearly, new approaches are required, quite possibly in conjunction with energy discussions with the OPEC nations.

The problem of hunger and poverty in the developing world is serious and growing and must take a central place in the North-South dialog. The major recommendation of the Presidential Commission on World Hunger is that "the United States Government make the elimination of hunger the primary focus of its relationships with the developing countries, beginning with the decade of the 1980's" (their emphasis). Tragically, it appears that the United States is sharply reducing its development assistance efforts in the name of fiscal austerity. We are facing a serious problem in Congressional politics and public education that must be addressed, and quickly, in order to reverse this trend.

In addition, we must consider constructive new approaches to the problems of technology transfer, investment, the global "commons", the conduct of transnational enterprises, refugees, the global environment, and all the other inter-related issues that cry out for concerted action. The report of the Brandt Commission contains many provocative proposals to address these problems.

Perhaps most important, however, developed and developing nations must seek new methods to arrive at mutually beneficial changes in the existing international economic system. In the words of John W. Sewell and John A. Mathieson of the Overseas Development Council, "currently negotiations are hampered because international institutions are either dominated by the rich countries (as in the case of the International Monetary Fund) or by the poor ones (such as the UN Conference on Trade and Development) or, like the UN General Assembly, because they include so many participants that detailed negotiations are cumbersome." We need to change our perceptions as well as our procedures and be much more willing than in the past to consider innovations in the rules and institutions that regulate North-South economic relationships.

This change of attitude will require an entirely different approach to the Special Session negotiations on the part of the United States. By way of illustration, I would like to read you a few excerpts from an excellent speech by a U.S. representative to an earlier North-South meeting:

"The United States firmly believes that the economic challenges of our time must unite us, and not divide us. So let us get down to business. Let us put aside the sterile debate over whether a new economic order is required or whether the old economic order is adequate. Let us look forward and shape the world before us. . . .

"The developing countries must have a role and voice in the international system, especially in decisions that affect them. . . .

"If the advanced nations fail to respond to the winds of change, and if the developing countries choose rhetoric over reality, the great goal of economic development will be submerged in our common failure. The speeches made here this week will be placed alongside many other lofty pronouncements made over decades past in this organization on this subject, buried in the archives of oblivion. But we would not all be here if we did not believe that progress is possible and that it is imperative. . . .

"We know that the world economy nourishes us all, we know that we live on a shrinking planet. Materially, as well as morally, our destinies are intertwined.

"There remain enormous things for us to do. We can say once more to the new nations: We have heard your voices. We embrace your hopes. We will join your efforts. We commit ourselves to our common success.

In between these flights of exalted rhetoric are a large number of American pledges and proposals on commodity agreements, an "International Investment Trust to mobilize portfolio capital for investment in local enterprises," debt relief, an "International Industrialization Institute", special assistance for the poorest countries, an international system of nationally-held grain reserves, increased development assistance and technology transfers, and many other issues. It is the kind of speech many of us would love to hear delivered by the U.S. representative to the Special Session this August.

This speech was delivered by Daniel Patrick Moynihan on behalf of Secretary of State Henry Kissinger in September, 1975. With a few exceptions, its promised initiatives died on the vine. The positive mood it helped to engender collapsed in bitterness and frustration in the CIEC discussions.

There is an important lesson for the Special Session to be learned here. It is not enough for the U.S. delegation to be amiable and make good speeches, even if they contain constructive proposals. We should be prepared to act on our words.

The North-South dialog is about the restructuring of the world economy. This is fairly serious business, Mr. Chairman. Our normal attitude in these discussions has been to stall, appease, cool things down, minimize the damage, and deliver as little as possible.

It is becoming increasingly clear, however, that there is a need for some fundamental changes in the international economy that can benefit all nations. Currencies and commodity prices are on a perennial roller coaster ride. Crushing debt, especially the non-OPEC developing countries, threatens the entire international financial system. The price and supply of oil has become a preoccupation of the most powerful nations as well as the weakest.

It is time for the United States to approach these negotiations with the earnestness they deserve. The U.S. position should not be articulated solely by the Department of State.

I think we can usefully look to the American approach to the Multilateral Trade Negotiations as a model for how we should proceed. The Office of the Special Trade Representative organized a series of advisory committees with different responsibilities. Some took a broad perspective. About 40 others advised the Administration on particular aspects of the trade talks and their impact on specific sectors of our economy. Over 1,000 individuals were systematically consulted at every step of the negotiations. It was a triumph of democratic foreign policymaking at a time that was less than auspicious for trade liberalization. It thus seems especially appropriate to the North-South dialogue at this difficult point in time.

Despite the gloomy political context of these negotiations, it is extremely important for the United States to participate more actively and constructively than it ever has before. In the words of the Brandt Commission Report, "it will not be possible for any nation or group of nations to save itself either by dominion over others or by isolation from them. On the contrary, real progress will only be made nationally if it can be assured globally . . ." There is an urgent need for an earnest and concerted effort by the United States and all nations to improve the operations of the global economy for the benefit of all. To quote the Brandt Commission once again:

"Change is inevitable. The question is whether the world community will take deliberate and decisive steps to bring it about, or whether change will be forced upon us all through an unfolding of events over which the international community has little control. It is the joint responsibility of all countries to act without further delay."

Mr. PEASE [presiding]. Thank you very much, Governor Gilligan. We appreciate that statement.

Our next witness is Mr. William Cline, senior fellow at the Brookings Institution and editor of "Policy Alternatives for A New International Economic Order."

Mr. Cline.

STATEMENT OF WILLIAM R. CLINE, SENIOR FELLOW, THE BROOKINGS INSTITUTION

Mr. CLINE. Thank you very much. It is a great pleasure for me to be here today to consider this crucial topic. My comments will focus primarily on the substantive aspects at stake in the north-south dialog.

I think Governor Gilligan has given us a number of very thoughtful suggestions on the more immediate questions of politics and the administrative feasibility of moving ahead in the north-south dialog.

I would like to submit my written testimony for the record and merely summarize it at this point.

Mr. PEASE. Without objection, so ordered.

Mr. CLINE. Thank you.

I would like to begin with a brief sketch of where we have come in the north-south dialog and then turn to the specific substantive issues. The dialog really began with the U.N. declaration in 1974, calling for a new international economic order. That was followed

by an initial negative reaction by the United States, until the conciliatory speech by Kissinger in 1975.

The process then went into the Conference on International Cooperation for Negotiations from 1976 through 1977. More recently we have had the Tokyo round of trade negotiations. We have had negotiations on debt in UNCTAD and on commodity stabilization in UNCTAD. In my view, we have made moderate progress in the areas of trade, debt, and commodities, and I think the position of the administration has contributed to that moderate progress.

I realize that this is an area in which there are those who hold that the north-south dialog has largely been a failure and that the U.S. Government has been responsible to a considerable degree for dragging its feet and causing that failure. I disagree with that assessment. I think we have made progress and the important thing at this point in time is to see where we can go from here.

We are going into a special session and that will lead to a so-called global round of negotiations, and it seems to me that although various groups may have their specific agenda for what will be discussed at the global negotiations, basically we are going to see the same issues that we have seen over the last few years come up again in these negotiations, and we have to think what our positions should be on the whole range of issues, enlightened by a perception of what have been the major changes in the economic situation within the last year.

COMMODITY PRICE STABILIZATION

Let me begin, then, with a few words on the substantive area of commodity price stabilization.

The developing countries have made stabilizing commodity prices perhaps their foremost objective in the north-south dialog, and it is not too hard to see why. Violently fluctuating commodity prices do cause a tremendous amount of damage to their economies. For example, in 1975, when the price of copper fell from 93 cents to 53 cents, the export earnings of Chile and Zambia fell by about 40 percent. One can imagine the kind of shock that produces on an economy. If one had something comparable in this country it would be mind boggling.

I think the important part for Americans to realize, and for the Congress to realize, is that there is another side of this picture as well. There are benefits from commodity price stabilization for the U.S. economy, and for the other industrial countries. These benefits come in the form of avoiding the inflationary shocks that gyrating commodity prices can inflict on an industrial country.

In 1973 and 1974, one of the major sources of the inflation that took this country from a path of price stability to double digit inflation was indeed shocks from the prices of imported raw materials. Once these shocks get built in, they set loose their own reproducing mechanisms of inflation in the internal economy. So commodity price stabilization is an area in which there are mutual gains for both developing and industrial countries.

A study at the University of Pennsylvania estimated that over the course of a decade the gains for the United States from stabilization would be large, on the order of \$15 billion. The gains for the developing countries insofar as we can calculate them are also

large, and it is very difficult to calculate perhaps the most important gains to the developing countries, those from avoiding these macroeconomic fluctuations.

I think we have made progress in this area. In March of 1979 we made a tentative agreement on a common fund to finance buffer stocks to stabilize commodity prices. We did not go as far as the developing countries wanted us to go. We only are prepared to contribute to the total contributions to that fund on the order of \$400 or \$500 million, instead of something like \$2 billion as the developing countries wanted. But I think it is concrete progress and it is possible that the final agreement on the common fund will be reached as soon as June of this year.

So my view is the next step on commodities is to establish the common fund. Congress should ratify the arrangement when it is given the opportunity to do so, and even before then there will be a concrete opportunity in the commodity area to act because there has been a recent agreement in principle on a rubber agreement, and Congress will be asked to approve that commodity agreement.

I support that agreement. It is a good agreement. It does not have restrictions on exports, which is one of the things we typically try to avoid in these kinds of agreements.

TRADE ISSUES

If there has been modest progress in commodities, I would say there has been something more than modest progress in the area of trade. The Tokyo round of trade negotiations was perhaps the most important postwar round. Those negotiations managed to cut the tariffs the developing countries face by more than 25 percent. It is likely that their exports will increase by \$3 billion a year or more as a result of those negotiations.

But at the same time, we have had a period in which we have been adopting more protectionist measures that do affect developing countries exports. We have the multifibers agreement, which is a terribly restrictive barrier to the single most important manufactured export of the developing countries, namely clothing and textiles.

In recent years we have imposed quotas on shoes and on television sets. The Europeans have protected steel and shipbuilding; and the really interesting question is will this list grow longer?

I would say that in the trade area perhaps the most important element of the new international economic order is the preservation of the opportunity inherent in the old order. We have to achieve a meaningful stand on protection. We have to avoid the slide into further protectionism. I think it is in keeping with the tradition of this country that the trade area is an area in which developing countries are offered an opportunity, not a handout.

The most important concrete thing that we can do at this point in the trade area, in my view, is to achieve an effective code on safeguards. The safeguards code would put some international discipline into the measures that countries take to protect particular industries that they feel are threatened by imports. At the present time, there is a totally chaotic situation in which a country can force a developing country's suppliers to adopt a voluntary export

restraint or impose other mechanisms, more or less without any discipline.

Perhaps the largest single failure of the Tokyo round, from the developing countries' standpoint, was that we did not manage to achieve a code that would put discipline into these measures, and as the negotiations on a safeguard code are continuing, it is my view that this is the most important area for our actions in the trade area at this time.

EXTERNAL DEBT

Let me turn to the area of external debt. There are two separate problems, as I see it, in the area of debt. There is the problem of the very poor country which has a large backlog of external debt, usually from official institutions, and their problem is basically that they have a heavy burden which can only be alleviated either by more aid or by the forgiveness of some of that past debt.

Now, in that problem, we have already made again some modest progress. In 1978, the industrial countries agreed to the principle of so-called retroactive terms adjustment whereby some of these debts could be forgiven or translated into domestic currency if the funds thereby generated would be used for new development projects subject to the approval of the original donor country. I think that was an important step.

In my view, the most important limitation of that step was that it did not apply to the really major poor countries, India, Pakistan, and some of the others with really large debts. Unfortunately, it was limited to a list of so-called least-developed countries, and it is important in my view to extend the coverage of this mechanism to all of the low-income countries.

Unfortunately, because of budgetary pressure, the administration has recently withdrawn its request for funding of retroactive terms adjustment, so we have a dual problem. One is the concept of extending it to other countries, and the other is appropriating funds for this purpose.

The second part of the debt problem applies to the middle income countries. Many of them have borrowed heavily and in most cases successfully to promote their economic development. As a result, they have a large amount of debt. Altogether developing countries now owe something on the order of \$300 billion to the industrial countries.

Now, in the context of the new international economic order, the discourse about this kind of debt was originally the idea that it would be nice to have a moratorium on the debt the developing countries have. Well, it very soon became clear that the middle-income countries have no interest whatsoever in that approach, they want to maintain a good credit rating in order that they can count on future inflows of capital.

What has become clear is that there is not much in the way of an international mechanism for restructuring that debt and that we do need to give continued attention to the development of new structures for that purpose, perhaps in the context of the special facility in the World Bank where private loans might be sold to the World Bank or through other such mechanisms.

FINANCIAL RECYCLING AND ENERGY

The broader problem, however, is not so much the rescheduling or restructuring of debt but the provision of a reliable flow of resources in the next few years when we will have a huge problem of recycling the OPEC oil earnings surplus to the developing countries.

That brings me to another major area of the north-south dialog.

In many ways, the most intriguing area for some sort of global bargain at this time is the joint area of energy and financial recycling. The developing countries have been hard hit by higher oil prices. Their current account deficit was \$36 billion in 1978. It will rise to perhaps \$70 billion in 1980, primarily because of higher oil prices.

At the same time, the private banks cannot perform the same functions that they did the last time around in 1974-76. The private banks are relatively loaned up to developing countries. They have high exposures already and some other vehicle is going to have to provide the basis for the financial flow of recycling from the OPEC surplus to the developing country borrowing that it implies.

It seems to me that in the context of the global round or elsewhere, we should think along the following lines:

We should think of devising a mechanism whereby OPEC will undertake to lend directly to the developing countries rather than lending through the banks, making the private banks assume the risk, and that in return for this measure, which would contribute to the financial stability of the international system, the United States, perhaps Germany and Japan, would be prepared to provide improved assets for OPEC to hold, in particular some form of bonds indexed against inflation.

These assets would balance the incentives to OPEC making it more attractive for them to take oil out of the ground, as well as giving them some compensation for incurring more risk by lending directly to the developing countries.

Other variants of the same basic approach would be to have some form of joint guarantee of loans to developing countries by both OPEC and the industrial countries.

I do not agree with the Brandt Commission recommendation that we ought to extend the idea of indexing to the price of oil. This seems to me to be the wrong time to index the price of oil just after it has risen more than 100 percent, but I do think that we have to push very hard in the area of energy and recycling in the forthcoming negotiations.

CONCESSIONAL AID

Let me close briefly by saying that concessional aid is another area in which we do have to act. Concessional aid of this country has fallen from half a percent of GNP in the sixties, to a quarter of a percent today. We have been increasingly turning away from world problems toward our own problems, changing our priorities.

U.S. POLICIES

So if one asks what we should do, what U.S. policy should be at this point in time, I think one can come up with a fairly reasonable list of concrete actions. One of them is to establish the common fund and to establish commodity agreements.

The third is to work hard in the area of recycling the OPEC surplus, establishing a more secure financial mechanism, and extending debt relief from small least-developed countries to all of the low-income countries.

The letter that came inviting me to talk today asked about what kind of a vision one could have about a new international order. I think perhaps one could summarize by saying that vision would look forward to an open international system, rather than one hampered by a trade barrier.

Thank you.

[Mr. Cline's prepared statement follows:]

[Mr. Cline's prepared statement follows.]

PREPARED STATEMENT OF WILLIAM R. CLINE, SENIOR FELLOW, THE BROOKINGS
INSTITUTION

It is a privilege for me to testify before this Committee in these timely hearings on the North-South dialogue.

Seven years ago the developing countries introduced their Declaration and Programme of Action on the New International Economic Order in the United Nations General Assembly. The initial American response was negative, but by the fall of 1975 the conciliatory U.S. speech before the Seventh Special Session of the United Nations General Assembly set the stage for a period of negotiation instead of confrontation. From 1976 through June 1977 negotiations took place in the Paris-based Conference on International Economic Cooperation (CIEC), but the North failed to achieve its objectives in the areas of energy and the South was disappointed in the results on development issues. Since that time North-South negotiations have continued in various forums, especially UNCTAD and GATT. The pessimists believe that these negotiations have been unsuccessful and that the United States has been a roadblock to progress. The optimists believe that significant progress has already been made and that a relatively forthcoming position of the

- * The views expressed in this paper are those of the author and do not necessarily represent those of the trustees, the officers, or other staff members of the Brookings Institution.

United States has played a favorable role. I agree with the optimists. In particular, some success has been achieved in three crucial areas: commodity price stabilization, trade liberalization, and external debt of developing countries.

Although the mood of the UNCTAD V meetings last year was one of disillusionment, there may be a renewed vigor to North-South negotiations in the coming months. Following the U.N. Special Session in September, which will inaugurate the Third Development Decade, a new round of negotiations is expected to begin that could last a year or more. Called the "Global Round," this new phase of negotiations could be similar to CIEC in structure, and could place considerable emphasis on the issue of energy. In sum, the North-South dialogue is still alive, and it has already yielded some concrete results.

Commodity Price Stabilization

One result has been provisional agreement on a Common Fund to finance buffer stocks for commodity price stabilization. The foremost demand of the developing countries has been for action on commodities. The non-oil developing countries earn three-fifths of their export income from commodities. The prices of these commodities have fluctuated widely, especially in the 1970s. Price fluctuation causes instability in export earnings, making economic planning difficult. It also induces manufacturers to replace commodity inputs with synthetics. gyrating commodity prices are harmful to industrial countries also, because during the upswing commodities provoke inflationary forces that spread to the rest of the

economy. In 1973-74 the price surges for grains and for imported raw materials, even excluding oil, played a substantial role in bringing double digit inflation to the United States.

Buffer stocks buy up products during periods of abundance and low prices, and sell them into the market again during periods of scarcity and high prices. A recent econometric study by Professor Jere Behrman of the University of Pennsylvania examined a program of buffer stocks designed to keep price fluctuations within a range of 15 percent for ten key commodities (coffee, cocoa, tea, rubber, jute, sisal, copper, tin, cotton, and sugar). The study's calculations show that over a ten year period such a program would provide net economic benefits of more than \$5 billion for developing countries and \$15 billion for the United States alone, ^{1/} and these estimates are almost certainly understated, at least for the developing countries.

Commodity agreements to stabilize prices therefore benefit both North and South. There is virtually no danger that the Common Fund will be used as a cartel to force up commodity prices above their market trend level, because consuming nations will have equal control with producing nations, and the developing countries by now generally accept that the institution would seek to stabilize commodity prices but not raise them above equilibrium levels. Moreover, the Common Fund would make it more economical to finance buffer stocks by pooling resources across commodities. Savings are possible because at any one time some commodities will be up while others are down, so that proceeds from sales of some can be used for purchases of others. At a time when budget outlays must be minimized, the Common Fund is an

attractive way for the United States to pursue commodity price stabilization. In addition, there are political benefits from the Common Fund. It would be the first international economic institution in which the developing countries feel they have a major voice, addressing the South's desire for greater control over the institutions that affect them and giving them the perception that they have a greater stake in the international economic system.

In March 1979 negotiations reached tentative agreement on a Common Fund. The North did not go as far as the South wanted. Direct contributions will be only about \$470 million instead of the \$2 billion the developing countries originally wanted. There will be only a small amount of funding for a Second Window for concessional aid, and the United States is not participating in that window. Nevertheless, the agreement, which could become final as early as this June, is concrete progress in the area the developing countries considered most vital. The Common Fund warrants U.S. support in the final stages of negotiation, and it will warrant congressional ratification and funding. In the more immediate future, Congress should support the recently-negotiated international rubber agreement. It is a good agreement, relying on stockpiling instead of export controls. Establishment of this agreement will help the United States avoid inflationary disruption from fluctuating prices of rubber, and Congressional approval will show good faith on the broader issue of commodity policy.

Trade Issues

In international trade, as in commodities, there has been some progress in the North-South dialogue, but there remains room for much more. Ironically,

one of the most important elements in a New International Economic Order will be securing a continuation of the economic opportunities of the old order. These opportunities have been threatened in recent years by protectionism. The Multifibers Agreement has long restricted developing country exports of textile and clothing, and these restrictions are becoming tighter. In addition, in recent years the United States has imposed quotas on imports of shoes and television sets from Korea and Taiwan, while Europe has restricted these and other sectors such as shipbuilding.

A fair international economic order must preserve export opportunity. Today's middle income countries must export in order to service their external debt. Today's low income countries must have the hope of replacing the Koreans and Taiwans in tomorrow's exports of labor intensive manufactured products if they are to advance beyond their status of severe poverty.

The recent Tokyo Round of trade negotiations did provide some benefits for developing countries. The tariffs facing them will fall by about 25 percent, and as a result their exports will rise by approximately \$3 billion annually. ^{2/}

The most important concrete trade measure now under negotiation is an international Safeguards Code that would discipline the import restrictions countries can impose to protect threatened industries. Tokyo Round negotiations on the code failed because the Europeans insisted on the principle of selectivity, whereby quotas could be imposed on individual supplying countries. Selectivity is a recipe for arm-twisting to force individual developing countries to adopt their own voluntary export quotas, and the developing countries blocked the code. Negotiations on a safeguards

code are continuing, and successful agreement on this code would be a major breakthrough for the North-South dialogue because it could help halt the slide toward protectionism in products vital to developing country exports.

The reverse side of an open trade policy is adequate adjustment assistance programs in industrial countries. Although U.S. programs became much more adequate with the 1974 Trade Act, the United States and other industrial countries will need to move to a more forward looking program of structural adjustment to changing comparative advantage in world trade.

There are other trade issues as well. The Tokyo Round code on countervailing duties required phasing out export subsidies given by developing countries, and many of them think this is unfair, although some important countries have agreed to the code (including Argentina, Brazil, Uruguay, and others such as Korea and Pakistan are likely to agree). Tariff preferences remain as an issue, but a stale one. Duty free entry is not the wave of the future; tariffs are already low, and in any event any extension of this privilege should probably be limited to low income countries.

In short, because of Tokyo Round agreements there has been some progress toward trade liberalization between North and South, but the most important issue remains to be resolved: How will the international system avoid the proliferation of quantitative barriers against manufactured exports from developing countries? A successful Safeguards Code is the crucial reform needed in this area. Once again, the benefits can be mutual for North and South. Consumers in the North will benefit from access

to low cost imports, and affected workers can be adequately compensated and shifted to other industries.

External Debt

In the area of external debt of developing countries, there are two basic problems. The first is that low income countries suffering from a heavy burden of past debts need either more aid or else the cancellation of those debts. The North-South dialogue made modest progress on this issue in 1978 when industrial countries agreed to "retro-active terms adjustment" for official loans outstanding to the least developing countries. The United States has passed legislation enabling such loans to be converted from dollars to national currency, for use of the funds in new development programs subject to U.S. approval. Unfortunately, the official list of least developed countries excludes most of the important low income countries (such as India and Pakistan), and so far the program internationally remains inconsequential in size. In fact, because of budget cuts the Administration recently withdrew its request for funding of this type for Fiscal Year 1981.

The second debt problem concerns the middle income countries. Their debt is large, but they have no interest in generalized schemes of debt cancellation because the taint of such programs would spoil their credit ratings and their prospects for future borrowing from the capital market. Nevertheless, their debt servicing burden is high. Altogether developing countries owe well over \$300 billion.^{3/} Debt service has become a serious burden for many, especially with oil price increase of 1979 which is expected to raise the current account deficit of non-oil developing countries from

\$36 billion in 1978 to \$70 billion in 1980. ^{4/} High interest rates without precedent make matters worse, raising the interest payments of these countries.

It is true that inflation has eroded the real burden of past debts, and that export values have grown so that debt servicing capacity has risen along with debt. Nevertheless the system seems increasingly fragile. The private banks that recycled the bulk of OPEC surplus in 1974-76 have now built up high exposure in developing countries and are reluctant to play that role again.

So far the South has emphasized a need for some internationally accepted standards for debt rescheduling. There have been negotiations on so-called "features" of debtor countries that would classify them as eligible for debt rescheduling.

There is a need for improved means of debt restructuring, and the United States should support continued investigation of new approaches (although any concept of automatic rescheduling should be discouraged).

Financial Recycling and Energy

More important than debt restructuring, there is a need for a new means of recycling the OPEC surplus to developing countries, as reliance on private banks becomes more uncertain. One alternative would be some mechanism involving industrial and OPEC countries jointly as lending intermediaries, perhaps through the channel of the International Monetary Fund. In its recent meeting in Hamburg, the International Monetary Fund Interim Committee decided that for the moment no special instruments of this type are necessary, but it is doubtful that present arrangements will continue

to be sufficient by 1981 and beyond, and in fact the Brandt Commission has already called for urgent action on the recycling problem.

In the context of the North-South dialogue, there would seem to be some possible bargains to be struck in the combined areas of energy and financial recycling. In the forthcoming Global Round there is likely to be considerable pressure on OPEC from non-oil developing countries, and fissures in OPEC-LDC solidarity have already showed up at UNCTAD V and at the Havana meeting of non-aligned nations. The outlines of a fruitful energy and recycling bargain might include a commitment by OPEC to provide some direct lending to developing countries lending through a vehicle with joint guarantees by the industrial countries, and OPEC, and perhaps assurances on supply. These measures would benefit international financial stability and reduce pressures on Western banks, and in return the United States and perhaps Germany and Japan might offer indexed government bonds as new, attractive financial instruments for OPEC, giving OPEC a greater incentive to take its oil out of the ground. The Brandt Commission proposes indexing oil prices as well, but now hardly seems the time to freeze the real price of oil after a 100 percent oil price increase in 1979, and in any event it is not clear that OPEC as a cartel would be sufficiently cohesive to deliver on its side of any bargain to hold prices down to an agreed schedule.

In the near term the International Monetary Fund is of course the first line of defense in managing developing countries' debt and payment problems. The IMF has considerable resources, soon to be increased, and last year was actually taking in more money in repayments than it was lending out. Many developing countries insist that the Fund's conditions for lending

are too rigid, although there is little analytical support to this claim.^{5/} In any event there will probably be a need for more careful programs of adjustment in developing countries this time than after the 1974 oil price increase, if for no other reason than the turnaround for private banks (which were flush with funds and eager to lend in 1974-76 but are now cautious). In any case, because the OPEC surplus will remain high for a longer period than in the 1974 episode of higher oil prices, it will probably take more resources than the IMF can mobilize to deal with the recycling problem into 1981 and beyond.

As in the cases of commodities and trade, there can be mutual benefit to South and North from improved security of the international debt and lending systems. Both sides would be damaged seriously if there were rash of defaults, as occurred in the 1930s.^{6/}

Concessional Aid

For low income countries the most important reform of a new International Economic Order would be a substantial increase in concessional assistance. Over the decade of the 1970s the real volume of U.S. aid fell steadily, as inflation eroded a relatively unchanging nominal amount of annual aid. Worldwide, real aid rose somewhat, but only because of higher real aid volume by Europe and, especially, OPEC. Today the O.E.C.D. countries give less than one-half of the United Nations target of 0.7 percent of GNP in concessional aid, and the U.S. performance is even lower at one-quarter of one percent.^{7/} The United States has repeatedly fallen behind in its obligations to international aid agencies. Worse, the climate of severe budget austerity makes the prospects extremely bleak for substantial increases in U.S. aid.

Much could be accomplished with more aid. If the U.N. target were met, aid would double, and the resulting flow of approximately \$50 billion annually would be enough to finance programs that would enable the world's poor to meet reasonable standards of basic human needs.^{8/} A quantitative analysis of the various policy options for a New International Economic Order shows that reaching the U.N. aid target would have the single largest impact of all of the various NIEO proposals, and its benefits would be concentrated on the low income countries while other reforms in the area of commodities and trade would benefit mainly the middle income countries in the near term.^{9/}

Frustration over lagging aid has brought calls for new automatic mechanisms to generate aid, such as a link between creation of IMF Special Drawing Rights and aid, a tax on international trade, and so forth. Such measures are unlikely to be accepted by legislatures that are unprepared to raise direct aid.

U.S. Policies

It is strongly in the long run interest of the United States to renew at least the degree of commitment to global development that we had in the mid-1960s, when American concessional assistance was twice as high relative to GNP as it is now. The Soviet invasion of Afghanistan and its increasing influence in Africa, and the events in Iran dramatically illustrate that we cannot afford to ignore the Third World. Our increased defense expenditures to deal with confrontations arising in the South are fundamentally a cost-ineffective method of dealing with instability. Steady global economic development seems the surer and less costly way to

promote stability. Economically, the progress of the Third World is important to the United States which relies on developing countries for raw materials and for export markets. Perhaps most fundamentally, this nation's humanitarian tradition should not long permit inattention to extreme poverty and hunger abroad when relatively modest increases in our effort -- on the order of one percent of the Federal Budget -- could make a dramatic difference, if matched by other donors.

In my view, the United States should adopt the following concrete policies toward the South. We should set as a feasible goal the earliest possible increase in concessional assistance to one-half of one percent of GNP (which would currently mean assistance on the order of \$12 billion, or twice the current level). That aid should be focused on poor countries and, without excessive rigidity, on basic human needs programs in those countries. We should support the establishment of the Common Fund for commodities, and the early conclusion of additional commodity agreements under its auspices. We should enforce a standstill on further protectionism against developing countries, making sure adjustment assistance and industrial development programs are adequate for domestic industries truly threatened by imports. We should push for a Safeguards Code that will establish international discipline on protective measures in other industrial countries. We should pursue special financing measures to recycle the OPEC surplus to developing countries, and extend the program of debt adjustment from the least developing to all low income countries.

These measures should be pursued in the forthcoming U.N. Special Session, the subsequent Global Round, and thereafter. If the administration and Congress take these measures, the United States will provide leadership in bringing the North-South dialogue to a new and productive stage. In both economic and political terms the results would be mutually beneficial for North and South.

NOTES

1. Jere R. Behrman, "International Commodity Agreements: An Evaluation of the UNCTAD Integrated Commodity Programme," in William R. Cline, Editor, Policy Alternatives for a New International Economic Order: An Economic Analysis (New York: Praeger Publishers, 1979), p. 63-153.
2. Based on W.R. Cline, M. Kawanabe, T. Kronsjo; and T. Williams, Trade Negotiations in the Tokyo Round: A Quantitative Assessment (Washington, D.C.: Brookings Institution, 1978), p. 211. The figure here is a general order of magnitude, adjusting the earlier estimate for inflation, trade growth, and a somewhat smaller tariff cut.
3. World Bank, World Development Report 1979, p.29.
4. Economic Report of the President (Washington, D.C.: Council of Economic Advisers, (1980), p. 169.
5. William R. Cline and Sidney Weintraub, editors, Economic Stabilization in Developing Countries (Washington, D.C.: Brookings Institution, mimeographed, 1979).
6. American banks alone are owed an estimated \$57 billion by non-OPEC developing countries, equal to 130 percent of the banks' total equity capital and loan-loss reserves. New York Times April 15, 1980. p. D3.
7. O.E.C.D., Development Cooperation: 1979 Review (Paris, 1979), p. 201. Real U.S. aid has been stagnant, despite a seeming surge in budget outlays in fiscal year 1980. Over the three fiscal years ending in 1981, real budget outlays for foreign economic and financial assistance rose by only 6.8 percent (deflating by the consumer price index). The Budget of the United States Government, Fiscal year 1981, p.602.
8. See W.R. Cline, "Resource Transfers to Developing Countries," in W.R. Cline, ed., Policy Alternatives, p. 337.
9. *Ibid.*, pp.48-9.

Mr. PEASE. Thank you very much, Mr. Cline.

Our final witness this afternoon is Prof. Albert Fishlow of Yale University, author of a thoughtful study for the Council on Foreign Relations 1980 project entitled "A New International Economic Order, What Kind?"

We are here to find out the answer to that.

STATEMENT OF ALBERT FISHLOW, PROFESSOR OF ECONOMICS, YALE UNIVERSITY

Mr. FISHLOW. Thank you very much, Mr. Chairman. I very much appreciate the opportunity to appear before you at these hearings on the north-south dialog. As all of us recognize, they come at a time of preoccupation with the national security and continuing concern with the domestic economic policy. The predictable but unfortunate consequence is that north-south issues will once again take a backseat to other more pressing priorities. Yet, as I hope to indicate, it seems to me the reality is one of increased relevance of those relations with developing countries both for our most important foreign policy objectives as well as our economic well-being.

My fellow panelists have covered many of the substantive and procedural aspects of such a north-south dialog. I find myself in considerable agreement with them. Rather than read my prepared statement, I would ask that it be placed in the record and use this opportunity to summarize some points that I think are salient.

Mr. PEASE. Without objection, so ordered.

Mr. FISHLOW. Thank you very much.

There are three points that seem to me worth making. One is that there is in fact a new international economic and political order in which we now live. It is in place not by virtue of any U.N. vote but because of the altered economic and political weight of the south, oil producers and oil importers alike.

It is a new order in which the position of the United States has declined in relative terms. It is a new order in which the Breton Woods system is no longer in existence. It is a new order succeeding an unprecedented expansion of world trade, in which the developing countries, many for the first time, have begun to participate.

It is also a new order in which the poorest countries have fallen farther behind and in which the problems of absolute poverty have become even more concentrated in South Asia and in the sub-Saharan in Africa. Finally it is a new order in which the rise and uncertainty of oil prices have provoked unprecedented disparities in the balance of payments and have necessitated unprecedented debt and potential economic difficulties.

The new order, in short, is not a particularly desirable order. It is a new order in which the industrialized countries find themselves plagued with a combination of inflation and unemployment. It is a new order in which the developing countries confront declining international trade and increasing difficulty in securing access to capital markets.

It seems to me that, in the first instance, we must approach the north-south dialog as an opportunity to confront the reality of the new order. We are no longer in the discussion of the early seventies, when we debated whether and how to construct a new international order.

Rather, the priority must be to reshape the new order that currently exists, in a cooperative fashion with both the OPEC countries and the rest of the developing world.

RESOURCE RECYCLING

I wish to suggest four priorities where considerable progress may in fact be possible. The first of these is the question of recycling. It is a question that must be confronted with ever greater immediacy. The surplus of the OPEC countries this year has been estimated to amount to over \$100 billion. It is an issue that affects the industrialized countries and the developing countries alike. The success of the private banking sector in 1974-75 in confronting this problem is not likely to be repeated. The banks themselves start out with a much higher portfolio of loans to developing countries. Those countries start out from a much more encumbered position than in 1974-75.

In addition, there is much greater uncertainty and the forecasts for the international economy are much more pessimistic.

The principal debt problem is not that of failure of the banks. Rather it is that the developing countries will be unwilling or unable to borrow in order to continue to grow in the face of the current recession. That would worsen the global downturn and exacerbate their repayment difficulties. It would also slow down the potential economic recovery of the industrialized nations.

The recycling solution, as my fellow panelist Mr. Cline has already emphasized, is one that is directly linked to the problem of the price of petroleum. Facilitating the recycling mechanism is an acceptance of the reality of the OPEC cartel. The alternative is to hope that deeper recession and unsettled financial conditions will cause defections and splits. Such a view, whatever its validity might have been in 1974, can command little allegiance now.

On the positive side, it seems to me that any effective recycling mechanism can and should also contribute to greater stability of petroleum prices. This is the opportunity for which we must strive and in which the possibility of productive negotiations exists.

I would deviate from some of the suggestions that have been already made concerning the way in which an effective recycling mechanism might be created. It seems to me that there are some advantages to having it conducted through the medium of the World Bank as well as relating the extent of inflation indexing to the price trends of petroleum itself.

I spell out in my prepared statement some of the possibilities of doing so. The enforceability of such an arrangement obviously ultimately depends upon more adequate and diverse energy supplies. We cannot simply depend upon the simple force of contract. Yet, over the next decade, while efforts are underway to provide such energy alternatives, it would be wrong not to explore arrangements that link recycling and the oil price itself.

ENERGY DEVELOPMENT TECHNOLOGY

A second priority, it seems to me, is the opportunity to cooperate with the developing world in enhancing the technological capacity to respond to the reality of energy scarcity. Developing and indus-

trialized countries have a common interest in advances in this area. Conservation, even at low levels of energy input, is possible.

A variety of substitutes for oil exist in abundance in developing countries. More advanced technology can promote their use. Indeed in some of the developing countries, for example Brazil, efforts are already far advanced in substituting alcohol for gasoline. A cooperative venture in the energy field can serve as a focus for attacking the problem of technology transfer.

It is an area where the public sector is involved. It is an area in which, therefore, one can avoid the confusions that surround the capacity of the north to make its private sector technology available on more favorable terms. That has been a recurrent demand on the part of the south. It has led to confrontation and not to meaningful negotiation.

Constructively, we might very well model our efforts in the energy field on cooperative ventures that have already existed in agriculture. International organizations were among the leaders in producing the significant advances of the green revolution. Whatever limitations there are in that green revolution, and there are certainly many, there has been a great difference in agricultural output in a large number of developing countries.

EXPANDING PRODUCT MARKETS

A third important area that I would reiterate, to repeat my colleague, is that of trade. The success of the Tokyo round should not obscure the fact that only one developing country, Argentina, initialed the full pact when it was presented last year. A growing interdependence through trade increasingly links the economic futures of north and south. It links the United States directly with the countries of the south.

Forty percent of the exports of the United States now go to developing countries. By the end of the century that proportion will be still higher. It corresponds to a shift in comparative advantage that has begun and will continue to evolve over the course of the next several decades. Only if we recognize the reality of that shift in comparative advantage and undertake to anticipate it will we be able to respond in a fashion that avoids protectionist devices.

There are three very specific efforts that can be undertaken in order to offer the south something in negotiations on the trade issue. One is to press within GATT for continuing modifications, where the Tokyo round fell short. In particular, these include a safeguards code that does not discriminate against individual countries.

In the second instance, much more effective national capacity is required in industrialized countries, and the United States in particular, to respond to import competition. Planning is essential to avoid burdening labor unfairly with unemployment and the need to move from long established homes. Human resources are not perfectly mobile. Adjustment assistance must come before the dilemma of permanent trade protection or unutilized domestic resources is confronted. It is easier to avert a future claim to protection by timely action than to deny it later.

In the last instance, we should not exclude the possibility of institutional reform in the trade area. We should be prepared to be

responsive to a demand on the part of the developing countries, to a larger voice.

Over the years a growing consensus has evolved in favor of renovation of the GATT framework. It is important to get away from the present structure in which there is the rhetoric of the south in UNCTAD, serious negotiations in GATT, and failure of coordination of either. Parallel and important decisions are being undertaken in the IMF and the World Bank without much coordination.

I do not suggest or recommend a large international structure such as that which appears in the Brandt Commission report. Rather, there may be scope both for a small coordinating committee as well as for a new financing facility that would provide trade adjustment of three types. One is to encourage trade of developing countries with each other. A second is to assure finance for the developing countries to diversify their own production when they confront declining markets owing to protectionism. The third is to lend to developed countries that wish to undertake the kind of positive adjustment assistance that is necessary.

BASIC HUMAN NEEDS

The fourth and last priority on the north-south agenda that I would single out incorporates food policy and basic human needs more generally. As we have heard, the Presidential Commission on World Hunger has recommended that the United States make the elimination of hunger the primary focus of its relationship with the developing countries. That ignores many of the problems already discussed and makes too narrow the complex and increasingly sophisticated range of economic interactions between the north and the south.

For many developing countries the problem of poverty is a matter of internal policy and decision. At the same time, however, it is important to recognize that there are others for which the issue is one of increased assistance. Those countries cannot afford to borrow on commercial terms. However high the social returns may be on the funds invested to eradicate poverty, there is a limited ability to convert that return to foreign exchange in the short run.

NEGOTIATING FRAMEWORK

Let me finally turn briefly to the question of the negotiating framework.

The opportunity that is presented by the forthcoming north-south dialog is one that can easily be lost. It can be lost to the extent that heated rhetoric between north and south detracts from the increased tranquility of recent years. No dialog will accomplish concrete results if such rhetorical excesses dominate.

In constructing the format of the dialog, therefore, there must be some effort to recognize explicitly the importance of the role of the OPEC countries. The price of petroleum and its supply occupy a central position.

What is necessary is not a simple north-south discussion but a fully triangular negotiation in which the interests and objectives of

the OPEC countries stand equally with those of the industrialized and the developing countries.

It is in that context that the recycling issue should be discussed.

In the second instance, it seems to me important to emphasize, as Governor Gilligan also has, the limited capacity of the United States, as presently situated, to participate in that dialog. The United States, if it is unprepared either to commit resources or to consider even modest institutional change, approaches such a dialog without a negotiating position.

The United States has been unable to redeem its past pledges of assistance to the development banks or to increase development assistance more generally. We are ill poised to make demands upon or to indicate the need for responsibility on the part of either the developing countries or the OPEC nations.

Congress must accept its full share of responsibility for the inability of the executive branch to perform its functions more effectively.

At the very beginning of these discussions, and of course, that is the purpose of these particular hearings, we must confront that reality. A sham dialog in which the United States is unable to commit itself and is unprepared to accept the Third World claims for increased voice, increased power and increased access to resources, is one that is bound to fail. It is a dialog that is bound to lead to recriminations. It is one that is bound to lead to charges of bad faith on the part of the United States.

I would hope that these hearings as they evolve, and subsequent discussions, manage to avert such a posture on the part of this country. I would hope that we will be in a position of trying to move forward in order to meet what is a very real challenge. The domestic economic difficulties we face, the problem of national security, the imminent return of the cold war, all are part of a larger picture of even more complex interdependence. It is not too much to hope that greater coordination and consistency of policies could yield advantage for all global actors. That coordination and consistency should take into greater account the present and increasing importance of the south.

Thank you, Mr. Pease.

[Mr. Fishlow's prepared statement follows:]

Mr. Chairman, I am pleased to have the opportunity to discuss the issue of international development and the role of the United States. I believe that the United States has a special responsibility to help the developing countries, and I am confident that we can do so in a way that is both effective and efficient. I would like to discuss some of the key issues that are facing the developing countries today, and I would like to suggest some ways in which the United States can help them to overcome these challenges. One of the most important issues facing the developing countries is the need for capital. They need capital to build infrastructure, to develop their industries, and to improve their living standards. The United States can help them in this regard by providing them with loans and grants. Another important issue is the need for technical assistance. The developing countries need help in developing their human resources, and the United States can provide this help through a variety of programs. Finally, the United States can help the developing countries by promoting trade and investment. By opening up our markets to their goods and services, we can help them to grow and to improve their living standards. I believe that these are some of the ways in which the United States can help the developing countries, and I am confident that we can do so in a way that is both effective and efficient.

PREPARED STATEMENT OF ALBERT FISHLOW, PROFESSOR OF ECONOMICS, YALE UNIVERSITY

These hearings on the North-South dialogue come at a time of pre-occupation with national security and of continuing concern with domestic economic policy. A predictable consequence is that North-South issues will once again take a back seat to other more pressing priorities.

Yet the reality is one of increased relevance of our relations with developing countries both for our most important foreign policy objectives and our economic well being. There is a new international economic and political order. It is in place not by virtue of a United Nations vote, but because of the altered economic and political weight of the South, oil producers and oil importers alike. Adaptation to that order is rendered more rather than less necessary by the events in Iran and Afghanistan and the domestic economic recession that now looms.

The new order has seen a decline in the position of the United States in relative terms. The economic recovery of Europe and Japan has hastened the end of the Bretton Woods system over which the United States had presided for some two decades. The unprecedented expansion of world trade, and active policies by many developing countries to exploit those opportunities, has led to progressive integration of at least parts of the South into the world economy. At the same time the poorest countries have fallen farther behind, aggravating thereby problems of absolute poverty that are concentrated in South Asia and Africa. Finally, the rise and uncertainty of oil prices have provoked unprecedented disparities in the balance of payments of surplus and deficit countries and with them, unprecedented debt.

The diffusion of economic and political power accompanying this new order in the 1970's has brought strains, real and rhetorical. Growth rates of product have slowed since 1973 for both developed and developing countries. Inflation rates and interest rates have moved sharply upward. International trade has progressed unevenly while the debt of developing countries, increasingly to

private banks, has climbed beyond \$300 billion.

Reaction to the realities has progressed from direct North-South confrontation, as epitomized in the UN Sixth Special Session in 1974, to greater moderation and compromise. Virtual failure of a coordinated energy policy among the industrialized countries has evolved into more frequent and regular consultations within the North. Real gains have been made. Agreements to extend the roles of the IMF and the World Bank have enhanced the capacity of these institutions to respond to changed international economic circumstances. The Tokyo Round ended with tariff reduction and acceptance of new codes of conduct in some important areas of dispute. Developing countries did gain acceptance of the principle of special and differentiated treatment. Commodity issues no longer loom as large as they did, less because of the success of the Common Fund than the growing recognition of its limited importance.

The new North-South dialogue to take place next year thus occurs in a more tranquil atmosphere than earlier efforts. That does not mean, however, that there are no real issues or that the prospects for confronting them successfully are considerable. The forecast for the international economy is pessimistic, and patience of some developing countries, at least, wears thin.

Priority Issues

Let me suggest four priority issues. One of the principal questions that must continue to be confronted, with a greater sense of immediacy, is the recycling of resources from surplus to deficit countries. As much as any factor, this burden on the global economy has stifled expansion. The success of the private banking sector, while considerable, has not been absolute. With the return of real interest rates, political unrest and a less rapidly growing world economy, the problem of sustaining capital inflows and economic expansion looms larger for a number of countries. They start from a more encumbered position than in 1974-75. The uncertainty that has contributed to reserve accumulation and lower rates of capital formation is greater than

before.

The direct economic concerns of the United States in this matter are straightforward. Developing countries are now our largest market for merchandise exports; they take approximately 40 percent of our products--two-thirds to non-OPEC countries. On service account, their contribution to earnings is even proportionately larger. They are an increasingly important source of supply of imports, not merely of raw materials but also of industrial products. The economic prosperity of these countries increasingly affects our own: the positive effect of developing country expansion in 1974-75, financed by debt, upon the export and product growth of the industrialized countries is well documented.

Beyond this aggregate linkage, U.S. private bank lending is an important part of the total debt accumulated by developing countries. Some 40 percent of bank lending has been done by U.S. banks. On the positive side this has meant in past years a large contribution to bank earnings. On the negative side it translates into a sensitivity of our financial system to what happens abroad.

The principal debt problem, let me hasten to add, is not that of an apocalyptic failure of the banks. Rather, it is that the developing countries will be unwilling themselves, or unable, to borrow to manage to continue to grow in the face of a potentially more severe world economic recession in 1980-81 than in 1974-75. That would worsen the downturn, and of course, exacerbate the initial repayment difficulties. It is easy to construct computer simulations showing mounting service payments and increasing borrowing requirements.

Recycling this time cannot be managed by the private banks to the extent they did last time. Such intermediation is not appropriate to the task. Commercial banks are not development banks, nor can they afford to take a long-term and global view. That implies a need to develop more direct channels between OPEC surpluses and developing country borrowers. Japan and Germany can arrange their own terms with Saudi Arabia; the developing countries cannot.

Facilitating the recycling mechanism is admittedly an acceptance of the OPEC cartel. The alternative is to hope that deeper recession and unsettled financial conditions will cause defections and splits. Such a view, whatever its validity might have been in 1974, can command little allegiance now.

On the positive side, it means that any effective recycling mechanism accepted by OPEC can also potentially contribute to greater stability of petroleum prices. Greater security and return to financial assets creates greater incentives to take oil out of the ground rather than leave it there. Unpumped oil has been a higher yielding asset over recent years than dollar balances.

Creation of an inflation indexed long term OPEC account in the World Bank that yielded a guaranteed return could permit that institution to relend the proceeds to developing countries. To permit a lower real cost to borrowers, there would have to be a subsidy made available by countries in proportion to their holdings of Bank capital. This burden sharing would reflect to some extent the advantages to the global economy of this increased certainty in recycling.

It is not a long step from such an arrangement to the price of oil itself. The incentives for production inherent in more profitable and more certain recycling contribute to price stability. Because of the inelasticity of demand, an even more direct effect upon price is desirable. The higher the increases in oil price, the smaller the factor of inflation adjustment on OPEC accounts could be. Within a short time, in such a scheme, the advantages of price stability outweigh immediate revenue gains. To the degree that such stability counters the supply shocks of recent years and induces better coordinated and more effective anti-inflationary policy, everyone has gained.

Enforceability of such an arrangement ultimately depends upon more adequate and diverse energy supplies rather than the simple force of contract. Yet over the next decade while efforts are underway to produce such alternatives, it would be wrong not to explore arrangements that link recycling and the oil price itself.

A recycling mechanism responds to the macro-economic imperative of energy scarcity. A second priority is to enhance the technological capacity to respond to that reality over the next decades. Developing and industrialized countries alike have a common interest in advances in this area. Conservation, even at low levels of energy input, is possible. A variety of substitutes for oil exist in abundance in developing countries. More advanced technology can promote their use. Indeed, Brazil already is far advanced in substituting alcohol for gasoline.

Cooperative ventures in the energy field can serve as a focus for the recurrent concern of developing countries about the speed, cost and appropriateness of technology transfer. It is an area in which the public sector in a variety of industrialized countries is already deeply involved. One thereby avoids the vexing confusions that surround the capacity of the North to make its private sector technology available on more favorable terms. By narrowing commitments to a few subjects, it is conceivable that one could move ahead - as was in fact the case with the "green revolution" in agriculture. Whatever the limitations, and there are many, the enhanced productivity in agriculture in the number of varieties has made a difference.

A third area of importance over the coming decades is the need to assure expanding product markets open to developing countries. The success of the Tokyo Round should not obscure the fact that only one developing country, Argentina, initialed the full package when it was first presented last year.

Many countries in the South were disappointed at what they perceived to be the imposition of more responsibility without concomitant new opportunities. They also contrasted the reality of a growing protectionism and proliferation of new quantitative controls in products of particular interest to them with the failure to obtain an adequate code on safeguards. Not incidentally, they sensed a peripheral role in what was primarily a negotiation among the rich.

A growing interdependence through trade increasingly links the economic futures of North and South. Total productive capacity in manufacturers will grow more rapidly in developing countries than in the presently industrialized. A progressively larger share of industrial exports will originate in lower income countries. This shift in comparative advantage will still not erode the net balance in trade of manufacturers of the North by the end of the century. Continued import requirements of capital goods--in which U.S. exports to developing countries have shown substantial growth--will assure a large, if diminished, developed country surplus.

That interdependence is threatened by increased resistance to imports, and a tendency to apply new forms of control. The new protectionism tends to be sector specific, to be targetted bilaterally to offending countries, and to involve quantitative restrictions that evade GATT rules and surveillance. While directed increasingly at developing countries whose lower labor costs and advancing industrialization have made them more effective competitors, other industrial countries have not escaped. Indeed the growing tensions in trade with Japan and Europe in intermediate goods and more sophisticated consumer goods are a cause of concern.

Policies to keep trade freer clearly make a difference to developing countries just beginning to penetrate international markets. The access to foreign exchange is especially critical to their abilities to meet rising debt service and oil charges. In the last analysis, the debt problem is a trade problem: the capability of adjusting export growth in the short term to establish international creditworthiness; the capability of converting current

account deficits to surpluses to pay off debt in the long run.

What can be offered to the South in negotiations? Beyond pledges to sustain free trade and to adhere to new GATT adjudicatory structure, three important steps can be taken.

One is to press within GATT for continuing modifications where the Tokyo Round fell short. These include a safeguard code that does not discriminate against individual countries and is tied to domestic adjustment assistance to the harmed national sector; an attempt to reduce tariff escalation that yields high effective protection rates on the products of interest to developing countries; and agreement to extend GATT review and monitoring over the variety of quantitative restrictions now in place.

In the second instance, much more effective national capacity to respond to import competition is required. Planning is essential to avoid burdening labor unfairly with unemployment and the need to move from long established homes. Human resources are not infinitely pliable or perfectly mobile. Adjustment assistance must come before the dilemma of permanent protection or unutilized resources is confronted. It is easier to avert a future claim to protection by timely action than to deny it later.

Finally, we should not exclude the possibility of institutional reform in the trade area. Over the years, a growing consensus has evolved in favor of renovation of the GATT framework. The Tokyo Round addressed some of the deficiencies & established new procedures for code enforcement. Yet it has not gone far enough. In practice, as we have seen, developing countries continue to respond to GATT as an "old boys" club and are reluctant to commit themselves to a liberal trading system. Developed countries engage in protracted and frustrating debate in UNCTAD, view it as the creature of the group of 77, and belatedly make concessions, sometimes on the wrong issues.

Beyond GATT and UNCTAD, the World Bank, the regional Banks and the IMF also influence the circumstances of trade adjustment if not the specifics of trade rules. I do not suggest a new global agency to absorb or parallel the

specialized functions of each. But there may be advantage to a small coordinating committee to serve as a steering group, representative of both North and South, and with participation from these agencies. The Committee could promote integrated consideration of trade policy and examine the implications of projections of trade flows for national industrial structures. Such a committee might well command special resources to lend in behalf of trade adjustment and expansion.

The funds could be lent to facilitate longer term adjustment of three types. One application would be to encourage trade of developing countries with each other. Another would allow developing countries to adapt and diversify their productive structures to persistent limitations to export growth that result from trade restriction. The last set of eligible clients would be developed countries with trade deficits that sought to finance positive adjustment policies.

The essential point in dealing with trade issues is the need to rely on collective decision. Only if a significant number of trading partners all accept the discipline of international competition will a liberal regime persist. The luxury of autonomy does not exist. It is easy to slide into a negotiated and managed state that seems to afford less interdependence and even short term advantages. The price will be one of longer run inefficiency, not to mention conflict among nation states. New collective institutional forms that command the commitment of the South as well as the North should not be discarded.

A fourth and last priority area incorporates food policy, and basic human needs more generally. The preliminary report of the Presidential Commission on World Hunger went as far as recommending that the United States "make the elimination of hunger the primary focus of its relationship with the developing countries." That ignores many of the problems already discussed and makes too narrow the range of economic interaction between the North and South. For many developing countries the problem of poverty is a matter of internal policy and priority. The international economic environment conditions their capacity to deal with malnutrition, infant mortality, illiteracy, inadequate sanitation, etc. It is literally a question of trade, not aid.

But for many poorer countries, and increasing differentiation has been the rule, the issue is still one of adequate external resources to supplement meager domestic savings. These countries cannot afford to borrow on commercial terms. However high the social returns may be on the funds invested to eradicate poverty, there is a limited ability to convert that return to foreign exchange in the short term.

Meeting basic needs cannot depend solely upon an income augmentation approach. It would simply take too long. Nor should it be viewed as an exclusive distributionist strategy. Elimination of poverty depends upon increasing productivity where poverty is most pronounced: in agriculture.

The special circumstances of food justify an international, and United States, concern that single it out. Efforts to assure adequate reserves that can withstand crop variation may be worth undertaking. Transfers of technology already have been considerable. Management of incentives to avoid penalizing the rural sector, and within that sector poor farmers, is important in many countries.

But in the last analysis such policies for food and other basic needs will require large doses of official development assistance. In their absence, poor countries will find it difficult both to accumulate physical capital and to meet minimum requirements for improving the quality of life.

The Negotiating Framework

Such a priority focus is diverse enough to accommodate to the differentiation that now characterizes the South. Such a focus emphasizes the reality of mutual economic and even political gain: difficult economic conditions will not enhance international stability. Such a focus recognizes at the same time the need for real transfers of income to the poorest.

Agreement by the world community on methods to improve financial flows to hasten adaptation to energy scarcities, to facilitate widening industrialization, and to begin to eradicate the worst aspects of poverty is not likely, however, to emerge from a broad North-South dialogue.

It is almost common place to begin any comments about our relationship with Third World countries with the problems of the international arena with the declaration that this is the worst possible time at

It is not likely to do so because such discussion will lend itself to rhetoric at a lowest common denominator for both sides. Claims about the fundamental inequity of the international market system will vie with defenses of sanctity of efficiency prices. It is not likely to do so because the developing countries will be tempted again to focus on schemes for large resource transfers on the one hand and sweeping institutional changes on the other. The North will dismiss the latter, bicker over the former, and reiterate its concern for the adequacy of official development assistance.

The fault is not merely the format of the dialogue. It is even more our limited capacity to participate. The dialogue cannot be expected to achieve much progress if the United States is unprepared either to commit resources or to consider even modest institutional change. Both are initial conditions for meaningful discussion even decentralized to specialized agencies like the World Bank and the IMF. The refusal of the United States to redeem its generalized pledge of official development assistance of 0.7 percent or its specific commitments for replenishment of the multilateral development banks compromises its negotiating stance from the outset. The reluctance of the United States to accede to greater developing country voice in decisions that increasingly affect their futures cannot help but further limit the negotiating space. Congress must accept its full share of responsibility for the inability of the Executive Branch to perform its functions more effectively.

The forthcoming dialogue is not an end in itself but a means. It can afford an excuse to establish not a simple North-South discussion but a fully triangular negotiation in which OPEC interests and objectives are explicitly recognized. It can serve as a medium for the presentation of North proposals rather than ^{more} responses; defining priorities without offering constructive programs does not defuse the suspicion or hostility of the more radical developing countries.

At the very least, the dialogue, and the preparations leading up to it, should make clear that there are increasingly direct economic interests for the United States in its relations with the developing world. The old economic order has substantially changed, and not altogether for the better. We, and other countries, are currently paying a price for that change. It is not too much to hope that some greater coordination and consistency of policies might yield advantages for all. That coordination and consistency must take into greater account the present and increasing importance of the South.

Mr. PEASE. Thank you very much. We appreciate your comments, as we have those of the other panelists.

I would like to begin with some brief questions. I will turn to my colleagues; then perhaps I can come back after they have had their opportunity.

TIMING OF NORTH-SOUTH NEGOTIATIONS

I am beginning to wonder whether the best course of action wouldn't be for us to try to defer this conference this summer, especially in light of your concluding comments, Mr. Fishlow. It seems to me this is the worst possible time for us to enter into a north-south dialog. We haven't had a very good record fulfilling our previous promises. Our record this year in terms of aid is likely to be worse than it has been in the last couple of years. We are hardly in a position to be optimistic about the next couple of years.

We are coming to a Presidential election where there may be a change of leadership. We have a new Secretary of State, who may have some ideas about policy, and Congress is hardly likely to present any new leadership, as Governor Gilligan suggested we ought to be doing.

In light of that, do we have anything to say at all this summer? It is hard for me to see how we can make any statement at all this summer that doesn't appear to have an element of sham in it. Do we go and bare our breasts and say we failed and we are not likely to be able to come through, or is there some more optimistic course that you can think of?

Mr. FISHLOW. Obviously we do not fully control the train of events that are already largely in motion. What I would say is that it behooves us to make apparent to all that the negotiations at the present time must really be conducted in a triangular fashion, and must bring the question of petroleum prices and recycling of petrodollars to the very forefront of the discussion. Simultaneously, this must also involve a willingness of the United States to recognize a larger role for the OPEC countries.

We cannot possibly pretend to use the international financial institutions as they currently exist, in which the proportions of OPEC capital are quite limited, and be unprepared to recognize an expansion of it at the same time that we negotiate a more effective recycling facility.

Rather than accepting what has happened so many times before—having the negotiations end with a generalized pledge for more development assistance, the lowest common denominator of agreement—I personally think it would be very healthy for us to reject that outcome and to try to put the recycling issue squarely in the center. We should come there prepared seriously to negotiate.

Mr. PEASE. That is a very helpful suggestion.

Governor Gilligan.

Mr. GILLIGAN. I would in large measure endorse the comments and suggestions by Mr. Fishlow. I would further say that while it is almost commonplace to begin any comments about our relationship with Third World countries and the problems of the international arena with the declaration that this is the worst possible time at

which to begin to consider such problems, or to come up with a positive program.

I happened to be reading in the last couple of weeks some of the history surrounding the launching of the Marshall plan in this country. If one goes back and reads the rhetoric of that day and the descriptions of some of the very serious internal domestic and economic problems that we were having at that time—the immediate postwar era, plus what was then a description of Europe, total chaos in Europe, and the evident inability of those wartorn economies to right themselves—one would think that it was the worst possible time to start discussing some bold new initiatives in the field of international cooperation.

But it was both the worst time, and the best time in that it did present a situation in which the U.S. Government, the executive branch, with very strong support and leadership from the legislative branch, was able to produce what turned out to be some of the most significant advances in the whole postwar era.

I think that one of the things that might well be done is to have the American public informed by a dialog between the executive branch and the legislative branch of just what this problem really is, its true dimensions, its nature and character, of how it represents a real threat to our own future security and well-being, and how no one has any slick solutions for all the problems presented, of the necessity of action in concert with our neighbors, and in other parts of the world, or we all are going to be in even greater difficulty than we are at the present time.

At the risk of repeating part of what I said earlier, I would go back to the fact that the Congress, in approving the reorganization of the foreign assistance activities in the executive branch, did a couple of things—approving proposals made by the President, separating IDCA from the State Department—on the grounds that the IDCA operation should be interdepartmental, interdisciplinary, if you will, and should provide the structure for bringing together a variety of viewpoints from the various departments and special agencies of the Government into a coherent and comprehensive plan and program which could then be discussed with the Congress.

It seems to me that we should not simply ignore the fact that both the legislative and executive branches have agreed that it was a prudent move to make this kind of structural adjustment, and we ought to take advantage of it and see what can be done in the weeks immediately ahead.

Even if all the problems aren't solved, and even if we may not be able to come forward with a program that is perfect in every detail, some advance in that direction is preferable to just sitting here in a sort of paralysis waiting for what is going to come. We can't call time out: That special session is going to take place. The question is what the United States is going to do in the course of that session.

Mr. PEASE. Mr. Cline, did you wish to comment?

Mr. CLINE. Just very briefly.

It seems to me the perception that is important to make is that there are two elements to the north-south dialog and there always have been. One of the elements is essentially concessions from a

benefactor. In that dimension Professor Fishlow is completely correct: We come to the table with very poor negotiating assets.

The other dimension, which I think has become increasingly recognized, is the opportunity for mutual gain for all parties. I think the point that is being made here is that the world economy has come to a situation in which the United States needs to participate in the north-south dialog for the pursuit of reforms that will avoid serious economic problems.

I think we have come to recognize that we cannot make all of the reforms that we need simply in the rich man's club, in the Five Nations Summit Conference. It does become very much a question of triangular negotiation and there are politics involved as well as the sheer economics.

So, I would second the fact that now is not the time, even though our concessional aid has been dwindling, and so forth, to sit back and say we have to postpone these kinds of discussions.

Mr. PEASE. Thank you.

Mr. Barnes, did you have questions?

Mr. BARNES. Thank you, Mr. Chairman.

First of all, I want to commend our two cochairmen, Mr. Bingham and Mr. Bonker, for scheduling these hearings. I think that the record that has already been created this afternoon is very valuable. I wish that some of our colleagues, who are participating at this moment on the floor of the House in the debate on the amendment offered by my colleague from Maryland, Mrs. Holt, were here to listen to some of the comments that have been made.

The second thing I wanted to say before asking a question, is how pleased I am that Governor Gilligan was able to be here this afternoon. It is no secret to Governor Gilligan that he is one of my longstanding heroes in Government and he has reaffirmed the basis of my admiration for what he has done for so many years this afternoon by his testimony and his comments.

ELIMINATION OF HUNGER

If I could ask all of you gentlemen to comment on something that struck me with respect to the quotation that a couple of you used from the Brandt Commission, and that is that the highest priority of U.S. foreign policy vis-a-vis the Third World in the eighties should be the elimination of hunger.

Mr. Fishlow suggested that was too limited an approach to foreign policy vis-a-vis the Third World, but it strikes me if we are in fact going to seize the moment in the worst of times and make it the best of times, as Governor Gilligan has suggested, maybe that is the vehicle.

At least with respect to political viewpoints in the United States, I have come to the view that everybody is against foreign aid and to some extent we are in a relatively isolationist period. I find you get pretty good consensus around eliminating hunger and you get a substantial cross section of society in the United States that is prepared to contribute, even to be activists, about eliminating hunger when leadership is offered. I could cite some instances in my own congressional district that have demonstrated that to me very clearly.

It is not a matter of the ideology. It seems to me that all of the issues that have been discussed are related ultimately to the elimination of fundamental poverty and possibly even eliminating hunger.

Trade, concessions, all of the range of issues you have addressed—it seems to me if we are going to turn around the attitude of Members of Congress, which requires first turning around the attitude of their constituents, because this is a responsive institution, maybe the hunger vehicle is the way to go.

What I am asking is, do you see the potential for leadership on that issue and am I reading the political situation the way you read it?

Governor Gilligan has got the best political instincts at the table, I guess, without denigrating anybody else at the table.

Mr. GILLIGAN. I am not sure that is true, Mr. Barnes, or I might not be sitting here. [General laughter.]

Well, I think clearly the hunger issue, while it does not serve as a vehicle for the discussion of all the multifaceted relationships between north and south that are critically important to the development of the kind of world that we hope will emerge in the next two decades, provides a useful political vehicle for opening the dialog, a dialog that has to exist between the Congress and the American public, and between the Government of the United States and other governments throughout the world, both north and south.

It is a good political vehicle because it is one that all politicians like. They all like the 90-10 issues. We don't like the 50-50 ones, but the kind in which, going into the discussion, 90 percent of the people are likely to agree with the proposition that we want to get rid of hunger. That establishes a certain momentum for the conference that is useful, and it is something to which the American people will respond, and to which the people around the globe will respond, especially when, after considering it for a few moments, they begin to come to the realization that it really is possible to achieve something in the direction of eliminating the worst aspect of absolute poverty within the next few years. Moreover, such a proposal immediately begins calling into question the assignment of resources—financial, technological, political, and so forth—and what are we spending them on, and how we could by some relatively modest redirection of those resources, accomplish prodigies.

That is a useful kind of environment to develop for the beginning of the discussion of matters like those at hand. The very fact that the President appointed this Commission, and asked the Commission to come back with certain specific recommendations to the Congress, and to the executive branch and the American people, and the fact that those recommendations are now in hand, seem to me to offer a very good point of departure for the dialog that lies immediately ahead.

Take the contrary. Are we going to go as a government into the next special session of the U.N., when everybody, not just in the halls of government in the United States, but everybody in every embassy on Massachusetts Avenue, and in every seat of government around the world knows perfectly well what is in the Presidential Commission report?

Are we going into these negotiations as though that report has never been made and that study never been conducted? That, it seems to me, requires a degree of cynicism on the part of our negotiators, which is pretty difficult to think about.

So, again, as we can't postpone the session, neither can we pretend to believe that that Commission report doesn't exist, that the Brandt Commission report doesn't exist, and a whole host of other reports and analyses of these problems don't exist. We do have the material at hand with which to make some real progress in these negotiations.

What the Brandt Commission has said, what the Presidential Commission on Hunger has said, and what many other commentators have said, is that the missing ingredient is political will. That is something that only the organs of government in this country can supply.

Mr. FISHLOW. I do not differ, I think, from what Governor Gilligan has said except in the following sense. It seems to me that to the extent we focus exclusively on hunger we place too much emphasis on the aspect of concessional assistance in our economic relations with the developing world and not enough on the other forms of interaction that have been growing in the last several years.

Clearly when it comes to concessional assistance, I would fully agree that there is every reason to try to focus it in an effort to try to meet some of the worst aspects of poverty, of which hunger is certainly one.

I believe it would be unfortunate, on the other hand, if we did not at the same time emphasize the variety and differentiation that now exists in the countries in the south and the importance to the United States and to U.S. economic well-being of our relationship with the more advanced countries as well. It is in that sense that I would insist that it is of some importance both in educating the public as well as in developing a negotiating stance that we have a balanced portfolio with which to approach the north-south dialog, not a single focus as the Hunger Commission necessarily emphasized.

Mr. GILLIGAN. Mr. Chairman, let me say that I endorse totally what Mr. Fishlow has said. I was talking about the hunger report as an opening wedge, to open the dialog and I would certainly endorse all the rest that he has said.

Mr. PEASE. Would Mr. Barnes yield on that point?

Mr. BARNES. Be happy to yield.

Mr. PEASE. I think our point is perfectly valid about hunger as an issue with which most of our constituents can identify and which might be worth emphasizing from that point of view. But it seems to me that there are three more which might make a broader package, which are also salable to our constituents.

One is the angle of natural resources and the absolute dependence of our U.S. industry on natural resources from the Third World countries.

Another one is the interesting point Mr. Fishlow emphasized of recycling OPEC dollars. If that is not attractive to our constituents, nothing will be.

Then the fourth one would be the job providing advantage of U.S. trade with the Third World as well.

It just seems to me that those four might be a package on which one could lay some stress and tie in whatever other loose ends there are into the kind of comprehensive approach to the north-south dialog that we have been talking about today.

Mr. BARNES. Thank you.

Mr. PEASE. Our distinguished chairman has now returned to the room. I hereby relinquish the Chair.

Mr. BINGHAM [presiding]. Mr. Gilman.

Mr. GILMAN. I certainly was pleased to hear all the attention given to the President's Commission on Hunger and World Food Problems. As you know, I am a member of that Commission. We have recently completed our recommendations and have just submitted a final report to the President. The President stated that it is unfortunate that the report came out at a time when we are facing a domestic fiscal crisis as we may have to do some rethinking about the direction in which we are going at the moment. Hopefully in the future, we will be able to make use of it.

I hope that report will not gather dust and will be utilized as an opening wedge for not only discussion of what we are doing in the north-south dialog, but also in resolving some of the problems throughout the world.

ROLE OF OPEC COUNTRIES

I am very much interested in the comments the panel has made with regard to trying to do something about the debt of the developing nations. That is a problem that is going to become more and more crucial in the months ahead. I think you talked about some \$300 billion of current debt. As we look back to the thirties, we see that many of those nations had problems similar to this then. We now hear continual warning sounds coming from our financial institutions that there are problems up the road.

I want to address this question to Mr. Cline and Mr. Fishlow. Both of you seem to indicate that there seems to be a need for the OPEC nations to work with the IMF in trying to establish a system for restructuring the debt load. Is this the only solution on the horizon, accepting OPEC as the ultimate resolution of this problem in finding a way to restructure the debt?

Mr. CLINE. The IMF Interim Committee, which has just met in Hamburg, has said that for the time being that the mechanisms we have are sufficient. IMF is sitting on a lot of capital that it can't lend, but it does seem to me that ultimately we do have to involve OPEC in the recycling process.

Some people are calculating that OPEC accumulations of surplus over the next 5 years will be close to \$400 to \$500 billion, and the problem is basically that in the past the OPEC countries have relied on the banking system to assume the risk and have not lent directly to the developing countries.

Mr. GILMAN. Are you suggesting that there should be direct financial assistance by OPEC, or that the OPEC nations should become the lender and replace the IMF?

Mr. CLINE. Wherever it would be possible for OPEC to replace, (a), the private banks, and (b), the IMF, that would be highly

desirable. The problem is that no matter how many times we have suggested that to OPEC, they have been reluctant to do so.

The interesting question at this point is, will they eventually be forced to do so because the banks say we can't take any of your deposits, you have to take them somewhere else, and they find they have no option but to lend to Brazil or Korea, or before that whether we have developed some new mechanism that provides, say a joint guarantee whereby OPEC and the industrial countries together assume the risk of lending to the developing countries, at least getting some of the risk borne by OPEC.

Yes, the short answer is I am definitely suggesting that insofar as it is possible, OPEC should lend directly to the developing countries.

Mr. GILMAN. Mr. Fishlow.

Mr. FISHLOW. Yes; I think the reality has been a reluctance of OPEC nations to lend to the developing countries. They have been willing to lend directly to the developed countries. Germany and Japan recently concluded agreements with Saudi Arabia for such borrowing. They prefer to lend to the developing countries through the banking system because of their desire for secure and shorter term assets. They have used the European banks increasingly and less the U.S. banks to that particular end.

I think it is of interest to note that even over the course of last year U.S. banking participation in lending to developing countries has gone down sharply in comparison to the role of the European banks in providing that recycling function.

We ought to involve OPEC in recycling in a way that provides incentives to them to continue pumping oil.

At the moment, the most secure asset for many of the oil-producing countries is oil in the ground rather than revenues from oil exports.

The recycling problem is not merely one of recycling the dollars which result from the given quantity of oil that is being produced but also one of increasing the supply of oil itself.

In the second instance it seems to me, and certainly many of the OPEC countries recognize it, that energy prices set in motion a vicious circle of international inflation. The value of OPEC financial assets go down with rising prices. The oil producers then increase their prices because the prices of the products they buy continue to increase.

Any mechanism that we can put in place that causes everyone to recognize the interdependence in that set of decisions is a very significant step forward.

I believe that to the degree that we insist the OPEC countries absorb all the risk, to the extent that we fail to recognize the need for some burden sharing, and to the extent that we fail to recognize that there are considerable advantages to the industrial countries of some certainty about the petroleum price, we will fail to seize a very important opportunity that now exists.

Mr. GILMAN. How do you suggest we encourage this if we have not been successful to date?

Mr. FISHLOW. One of the reasons we haven't been successful is that when we speak of OPEC, we mean bilateral diplomacy on the part of the United States. We visit the Saudis in order to encour-

age them to buy U.S. securities, to hold some of the surplus dollars in order to alleviate the U.S. burden. We visit them sometimes to suggest they pump more oil. We visit them at times to suggest they show some political forbearance in Middle Eastern problems.

I think we have not yet approached the oil producers as a group with some combination of economic and political incentives. The economic incentive is a rate of return on assets that in some measure is guaranteed. The political concession is recognition of the reality of the continuing high price of petroleum, and the need to adapt to it jointly and constructively.

Mr. GILLIGAN. Well, I could only add a rather unsophisticated observation to what Mr. Fishlow said. In the report of the World Bank last year, there was a very revealing graph which purported to indicate that the increases in world petroleum prices have not been real increases, that the increase in price has just about kept up with the depreciation in the purchasing power of the dollar, and that what we were asking them to do is to accept more and more dollars because they, of course, were asking us for more and more dollars for their oil, but that the dollars are depreciating in their hands, and they had no way to get rid of them except to unload them, which further depreciated the value of the dollar in the international exchanges.

So it seems to me to be the classic case of both sides suffering from the same phenomena, each contributing to the worsening of the situation, we by demanding more oil and paying higher prices for it, and they by being unable to use those increased revenues in any way that preserves the value of the assets which they are trading.

It does seem to me that both sides, by now, must be rather painfully aware of the situation in which they find themselves, and the time may indeed, as Mr. Fishlow says, be quite ripe to sit down and say: There must be some way out of the box for all of us, as well as the Third World nations who are in the most pitiful of all the positions. They are paying the higher prices, and they have nothing with which to offset those prices except additional borrowing, and they are now borrowed to the skies and beyond.

But if indeed the overburden of international debt finally of its own weight brings down the whole international system, it is hard to say who will suffer most. But the U.S. economy would, at the very least, be in for a beating that would be hard to even think about.

Mr. GILMAN. If this is such a critical problem and there is apparently an obvious agreement here on the direction, why haven't we adopted this kind of initiative? What has been the obstruction? Has it been any international monetary circle?

Mr. GILLIGAN. Mr. Gilman, my simplistic response would be that I think that particularly in the executive branch of our Government, the conduct of these matters has been essentially focused upon crisis management, getting from one week into the next without the opportunity to stand back and take any longer range view of what is it that we think should occur in terms of international global economic development, what our contribution should be to it, and how we set about negotiating to arrive at that position.

I think the fact that these two subcommittees are holding these hearings today without having in front of them any package of proposals from the executive branch for a very serious international series of meetings that will begin in a very few months, is the indication of the fact that there really isn't much perking downtown, and that the initiative is going to have to come from somewhere else.

Mr. GILMAN. It is encouraging to hear that someone else has those reflections.

Are there any other comments about why we are not doing what we should be doing?

Mr. CLINE. Yes. I don't think it is terribly clearcut what the best solution is. I think we have a certain amount of disagreement here at the table as to whether it would be desirable to go out today and guarantee OPEC or make an agreement with OPEC to keep a constant real price of oil, in other words, continually compensate for our inflation if they would do certain things.

My perception of the data is that it would not be accurate to say that the price increase in 1979 merely reestablished the real price of oil in 1974. It depends on the particular time one chooses.

Mr. GILMAN. Selected?

Mr. CLINE. Basically, OPEC tightened the screws on us in 1974 and then they turned them even tighter in 1979. We are paying higher real prices for oil than we did in 1974. So the substantive issue is, does one really accept indexing the oil price at this point in time. That is one issue.

There are other issues that involve entire practices. The idea of an indexed bond, that the U.S. Treasury would issue a bond whereby the purchaser would be compensated by 10 percent whenever the Consumer Price Index went up by 10 percent, is probably close to an anathema to the Treasury. It means, among other things, everyone on Wall Street would want one, too, not just OPEC. There are very big issues involved.

I think we have taken the easy steps of suggesting to OPEC they make direct loans to the developing countries, but we haven't done enough to hammer out a really hard package where there will be sufficient concessions on our side and concessions on their side that we will actually come to a resolution of the problem.

I think we have to recognize that the problems are not that easily addressed.

Mr. GILMAN. Thank you.

Mr. FISHLOW. I would supplement those remarks by making two observations. One is that in part we have been delinquent because the old system has worked. The fact that commercial banks were able to intermediate much more effectively than had been predicted in 1974-75, and the fact that the surpluses of the OPEC countries were eroded down through 1978, have made us more complacent about the problem than I think we should in fact be.

I think in the second instance, there is a lingering hope that someone will magically restore the world to its pre-1973 characteristics in which these problems will somehow disappear. Those naturally conservative instincts feed into the bureaucratic environment that Governor Gilligan has so eloquently described. I think the consequence is a lack of initiative.

Mr. GILMAN. Thank you. I want to thank the panelists. I think my time has run out. Thank you.

Mr. PEASE [presiding]. Thank you, Mr. Gilman.

RESTRUCTURING WORLD ECONOMY

I am very interested in Mr. Fishlow's analysis that the new international economic order has already arrived without so much of a by your leave, and the question is not so much of establishing a new international economic order but how to adapt to the one that has already arrived. But a new order doesn't necessarily mean a new structure to cope with it, and I suppose that that is what the north-south dialog this summer will be all about.

As a matter of fact, Governor Gilligan says in his statement, the north-south dialog is about the restructuring of the world economy.

I talked a few minutes ago about ways to discuss this which might appeal to the ordinary American. From a cynical point of view, let me ask you: If we are really restructuring a world economy in which the United States and other Western nations are doing pretty well, why might our constituents want to do that? If the south is correct, that the system is biased in our favor, why is it in our interest to restructure it more in their favor? How can we respond to the charges that we really are giving away a good thing?

I think in terms of trade, that is an advantage for us, but it is going to be an advantage regardless. Think of food. As long as we are producing food, other nations will want to and have to buy food. Think of natural resources. If other nations are desperate for foreign exchange, they are going to be selling their natural resources to us, whether we restructure the world economy or not.

So if the system is biased in our favor now, why should we change it from our point of view?

Mr. GILLIGAN. Mr. Chairman, I will venture a response on that. That is, of course, it is a zero sum game: Anything which the traditional wealthier industrialized nations of the world concede to the south is a dead loss to themselves. It is a difficult argument for anybody to advance to his constituency that we should give up what we have for others because however charitable people may feel in the short run, when the pinch comes in their own domestic budget, their natural instinct is to take care of first things first.

What we are talking about is the development of the new world order in which there will be not only a more equitable distribution of resources, but a better functioning of the entire world economy, involving better management of global resources, a greater concern for the protection of the global environment, and a number of other such things.

We will all live better, if we do it right. A very quick example lies in the fact that this Government spent several hundred million dollars, together with the World Health Organization, to eradicate smallpox, which is not as great a public health menace in this country as it was in some other less developed regions of the world, and we eradicated it from the face of the earth.

The result is that, just in pure financial terms, never mind in terms of human suffering, we will recoup that investment in the United States in a couple of years because of not having to go

through the inoculation procedures and the other public health measures that have been required over the years to protect ourselves against smallpox.

It wasn't just a case of doing something for people suffering from smallpox, or potential victims of smallpox, in Africa and Asia, but we really did a lot for ourselves in whatever terms one cares to use.

I think you pointed it out in the four propositions that you advanced earlier. In the development of any one of those four propositions, Americans stand to benefit as well as people around the rest of the world. We were just discussing the problem of debt. If that debt structure collapses everybody is going to get hurt.

It isn't just a question of protecting the Third World, or protecting the bankers in New York, or protecting the OPEC oil merchants, we are trying to protect the whole system upon which all of us depend, and I think these various issues and subissues need to be placed in a new frame of reference so that our citizens, and the Members of Congress, and others, can see it in terms of what we are trying to do.

It is not a giveaway game, not a get-rich-quick scheme, it is an effort to build a stable, more equitable, more secure world for the future.

Mr. PEASE. Thank you.

Mr. FISHLOW. I think the American people now are prepared to accept the proposition that the industrialized countries and we, in particular, are not doing so well at the moment. This provides an opportunity to explain what the potentialities of a more constructive interdependence might yield rather than the negative consequences of increased real energy prices and increased interest rates that we are all afflicted with currently.

Mr. PEASE. Did you wish to comment?

Mr. CLINE. No.

Mr. PEASE. I am playing the devil's advocate here, but I suppose the 10,000 unemployed autoworkers in my district would say that before the Marshall plan the United States didn't have to compete with the Japanese and Germans in producing cars. The world may be a much better place now than it was before, but not for them. That is not a perfect analogy. I am sure there must be some flaw in it someplace.

Well, Governor Gilligan, do you feel we did a better job of policymaking on the MTN negotiations than we have done or are likely to do in the north-south dialog?

Mr. GILLIGAN. Well, Mr. Chairman, being cynical about it, why should we have done anything in terms of altering the rules of conducting international trade? Why should we have conceded anything along the way? How could we explain those concessions to people in the affected industries within the United States and to their representatives in the Congress? That was a very difficult political undertaking. I think it was done with very great skill.

I notice Mr. Cline earlier said that we haven't accomplished all that might have been done but that some very substantial advances were made in that area which provide us with the basis of doing even better in the next round.

It seemed to me the technique for doing it was instructive and offers some possibility for instruction to us now.

If those negotiations had taken place, and if Mr. Strauss and his colleagues had simply come back and popped on the table before the Congress a fait accompli, I am pretty sure what the results would have been. But the fact that there was a very painstaking effort to communicate with the Members of Congress, with their constituents, with labor, with industry, with everybody in the country step by step along the way, trading off, compromising, doing what had to be done in order to get a package together that would be acceptable on the other side of the table, and at the same time to protect the essential interests of the people of the United States, seemed to me to be a brilliant piece of work and one that we might well emulate in this situation, which also involves difficult international negotiations, involves difficulty in explaining to the American people what we are up to, and the necessity and importance of it, and the fact that some concessions that have to be made immediately have very substantial long- and short-term returns.

I just thought it was a pretty good example of a job rather well done.

Mr. PEASE. You seem to ascribe most of the credit for the MTN success to the approach or technique and hold it up as worthy of emulation. A number of people have said that the success is due to the person who employed the approach or technique, namely, the remarkable Mr. Strauss.

Mr. GILLIGAN. Well, I don't know who was responsible for the technique but insofar as Bob Strauss was, I am willing to give him all the credit in the world.

Mr. PEASE. I wonder to what extent the same approach could be used in the north-south dialog absent Mr. Strauss?

Mr. GILLIGAN. I think we have other people who ought to be given their chance at bat. Maybe they can do it as well. We have an IDCA director who might be talked to about that.

Mr. PEASE. Well, we won't pursue that any further.

We have a vote on the floor now. I think this has been an excellent hearing and I am very pleased with the comments of all three of you gentlemen.

Governor Gilligan, I hope the subcommittees will follow through on your suggestion of asking IDCA or the State Department to come forth with some negotiating strategy sooner than the day before the conference starts, and share it with us so we might have some input into that process.

Thank you all very much. The hearing is concluded.

[Whereupon, at 4:30 p.m., the subcommittees adjourned, subject to the call of the Chair.]

NORTH-SOUTH DIALOG: PROGRESS AND PROSPECTS

TUESDAY, MAY 13, 1980

HOUSE OF REPRESENTATIVES, COMMITTEE ON FOREIGN AFFAIRS, SUBCOMMITTEES ON INTERNATIONAL ECONOMIC POLICY AND TRADE AND ON INTERNATIONAL ORGANIZATIONS,

Washington, D.C.

The subcommittees met at 2:45 p.m. in room 2200, Rayburn House Office Building, Hon. Jonathan B. Bingham (chairman of the Subcommittee on International Economic Policy and Trade) presiding.

Mr. BINGHAM. The subcommittees will be in order.

Today the Subcommittees on International Economic Policy and Trade and on International Organizations continue their joint hearings on the north-south dialog.

These hearings are designed to assess our Government's preparations for this summer's United Nations special session, to evaluate U.S. policy on north-south economic issues more generally and, most important, to contribute to defining the United States interest in this dialog—to identifying the kind of international economic order that both north and south will see as in their interest.

Our witnesses this afternoon have all given a great deal of thought to these issues and we look forward to hearing their views. They are: Mr. John Sewell, president of the Overseas Development Council; Mr. Richard Seifman, executive director of the Economic Policy Council of the United Nations Association; and Mr. Richard Erb, resident fellow of the American Enterprise Institute.

Welcome, gentlemen; we look forward to your testimony. Mr. Sewell, would you start?

STATEMENT OF JOHN W. SEWELL, PRESIDENT, OVERSEAS DEVELOPMENT COUNCIL

Mr. SEWELL. Thank you very much, Congressman Bingham. You are to be commended for holding this series of hearings on an intrinsically important issue, but one, however, that tends to get overshadowed by the more immediate concerns of the day.

In the interest of time, I would like to respond to the questions that you have addressed to us in your letter in a somewhat selective form. I will not deal with how north-south relationships reached their present stage but leave that to a chapter which I have appended to the testimony which was done by my colleagues

and myself for the Brookings Institution publication, "Setting National Priorities: Agenda for the 1980's."¹

I would like, in the time allotted me, to deal with several questions that you raised in your letter. First, why are north-south relations important? Second, what is the record of the United States to date? Third, what are the challenges that lay ahead of us as we enter the 1980's, and finally, what can be done in the short run in order to deal with a series of pressing problems on which action cannot be delayed?

IMPORTANCE OF NORTH-SOUTH RELATIONS

Let me first turn to the question of why north-south relations are particularly important, a view not held by most people involved in foreign policy in this town, but who instead believe that relations with the developing countries are subordinate to our relationships within the OECD and to issues of east-west concern. Because of this view, the emergence of the developing countries in the past decade or so as a set of important economic and political actors has gone almost unnoticed. Recently, however, a number of different analyses made it clear that what happens to the developing countries in the aggregate is going to have a considerable impact on economic development in this country, and in the other industrial countries, and certainly on political development of both sides.

Let me cite a few economic statistics to illustrate that point. Americans tend to think of trade as a relatively small part of our economy. Yet, trade had grown over the past two decades from being about 5 percent of our GNP to 11 percent. At the same time, the developing countries themselves have grown to a point where they now buy well over one-third of our exports: in 1978, 38 percent of total U.S. merchandise exports was bought by the developing countries, 28 percent by the non-oil-producing developing countries. Thus, the non-oil-producing developing countries have become a bigger market than Europe, Eastern Europe, the Soviet Union, and China combined. About 1 in 20 jobs in manufacturing in the United States exists to meet the demand for U.S. exports to the Third World. We run a substantial surplus in our balance of payments with the non-oil-producing LDC's and we benefit in a variety of ways by the low-priced consumer goods that they sell to us in turn. One recent survey concluded that consumer goods imported from developing countries were 16 percent cheaper than other imports, a benefit to all of us in our role as consumers.

Second, the developing countries supply us with large amounts of raw materials and commodities. All U.S. imports of rubber, coffee, tea, cocoa, hard fibers, and jute come from the Third World. Half of the U.S. consumption of manganese, cobalt, platinum, chromium, tin, nickel, mercury, zinc, and tungsten also come from the Third World. These countries are major suppliers of goods that we need for our own economic progress and well-being. And, of course, we are increasingly dependent upon a group of Third World countries who produce petroleum. In the longer run both rich and poor countries will need to cooperate to develop new sources of conventional energy to meet the future needs of both sides.

¹ See appendix 2.

Then there is the question of overseas investment. In 1978, U.S. direct investment in developing countries totaled about \$40 billion, or one-quarter of our total foreign investment. Over a third of total U.S. direct investment income originated in the LDC's, and about 35 percent of U.S. bank claims on foreign borrowers comes from borrowers in the developing countries. Thus, their ability to service those debts becomes important to the well-being of our own economic system.

It has come to a point, Congressman Bingham, where not only have the developing countries as a group emerged as important actors in the international economy, but also where what they do in terms of their own individual growth and progress will directly affect our own. Therefore, whether they continue to maintain their economic growth rates, whether they continue to both purchase goods from us and sell products to us, will have an impact on what happens in the United States.

This was illustrated quite well by some detailed analysis of what happened after the first major oil price hike in 1974. The decision of the developing countries to continue their own development programs had a very favorable impact on lessening the force of the global recession which took place at that time. Thus, the developing countries became important economic participants in our own well-being.

Of course, when one looks at the global economic system that was created after World War II—the Bretton Woods system—one realizes that it was designed by a relatively small number of countries, most of whom are now part of the industrial world. The growing number of countries entering the international system over the years has subsequently created a great deal of stress and strain within the system. It still strikes me as interesting and somewhat eye-opening that there were only 92 independent countries in 1959; there are now, as we begin 1980, 164 independent countries. All of those new entrants are in the developing world. Consequently, we simply have a greater number of actors in international economic and political concerns.

Another important point, I think, when assessing the importance of the developing countries, is to realize that the agenda of issues for decision has broadened considerably. We are now talking about new rules to govern the use of the oceans, the airwaves; we are talking about various forms of international energy strategy; we are talking about reforms of the global economic and political institutions. All of those are going to necessitate cooperation with the developing countries to a much greater degree than we have ever seen in the past.

Another consideration is the relationship of Third World events to U.S. security. Unfortunately, there has been a resurgence of leftover rhetoric from the cold war about the threat from the Third World, that we either win or lose in the developing world. But even with the impact of events in Iran and most recently in Afghanistan, it would seem that the real issue urgently on the agenda in the 1980's is whether national security must be redefined in a much broader fashion to encompass a whole host of nonmilitary issues. We have recognized the changed economic situation within

It is hard to think of areas in the Third World where the applicability of U.S. military power will be generally useful in the 1980's aside, perhaps, from any direct threat to the supply of oil. I would argue in any case that short-run use of force is really no substitute for the long-run diplomacy we are going to need in the decade ahead.

The final reason that the north-south relations are important is one which is less popular but still terribly important. There remain in this world well over a billion people living in what Robert McNamara defines "absolute poverty," conditions so inhuman that they boggle the imagination, at a time when the wealth of the world would allow us to deal with that problem quite adequately.

The projections of the World Bank indicate all too graphically that even under the best possible current set of circumstances, at the end of the century a large number of people will still remain in absolute poverty. The question of what is to be done about this very pressing moral and human problem is the fifth reason why relations between developed and developing countries are particularly important, as we look ahead to this new round of global negotiations.

U.S. RECORD

Let me turn, then, to what the record of the United States has been on this set of issues over the past 4 years. I stress it is the record of the United States; it is not just the record of this particular administration.

Most American policymakers and observers of north-south issues, I think, would agree with the following four propositions:

First, that the international system created after World War II, the so-called Bretton Woods system, really does not discriminate against the south and is basically sound.

Second, that the world's economic system still has to be governed by countries in accordance with their economic power.

Third, that the problems of the developing countries probably are more due to their own internal policies than to anything to do with the international environment.

Fourth, and finally, the important issues of national security are those of military power and related mainly to East-West issues.

Now, if you take that set of assumptions as being correct, then the record of the United States over the past few years has been quite adequate. There is, however, an alternative set of assumptions which must be considered in looking at that record.

The first is that international development effort affects the developing countries as much as, and perhaps more, than it affects the developed world, and that the developing countries both because of their size and their numbers are going to have to have a much greater decisionmaking role in the policies that affect them.

Second, that the international system either inadvertently or purposely discriminates against the developing countries in a variety of ways.

Third, that inequities in international wealth and power act as constraints on efforts to overcome poverty in the Third World, even if the actual measures to be taken must primarily be an internal matter.

Fourth, that what happens in the Third World as a result of the economic factors I discussed at the beginning of my testimony is going to have as much impact on the growth and progress of the industrial world as it has on their own.

If you take that second set of assumptions, then the record of the United States in the past 4 years is one of missed opportunities.

It is interesting to go back to late 1976 and 1977 when the new U.S. administration was given a clean slate by the developing countries. As you recall, the north-south global negotiations slowed down as we approached U.S. Presidential elections. Decisions were put off and meetings were not held until President Carter took office and his administration came into power.

However, not all that much has happened in the intervening years. If one looks down a range of issues, whether they are those we put high priority on, or whether they are those that the developing countries put priority on, the record is at best mixed.

Let me talk about trade, development assistance, and international financing and LDC debt.

On trade, it seems to me, the record is mixed. The United States particularly among the industrialized nations has put a high premium on not erecting any new trade barriers. It has fought against protectionism, and the protectionist tendencies both domestically and internationally. But the major set of trade negotiations during that period of time, the multilateral trade negotiations, otherwise known as the Tokyo round, paid only minor attention to the needs of the developing countries. The major decisions tended to be broken out among the industrial countries. The result was that, to the best of my knowledge, only 1 of the 160 developing countries has initialed the agreement arrived at in Geneva. It is questionable whether any others will in the future.

In the record of development assistance, as I do not need to tell anyone in Congress, the U.S. record is dismal. We are now giving 0.23 percent of our gross national product, which makes us 13th among the 17 donor countries of the OECD. Despite the efforts of members of this committee there seems to be little prospect of this going up. This at a time when the German Government has committed itself to go to 0.5 percent of its GNP by 1985 and when I understand the Japanese Government has made a similar commitment. That leaves us alone among the large OECD countries with a low level of aid compared to our gross national product.

On the questions of development finance beyond official aid and of the financing of debt, the administration has played a positive role in expanding the resources available to the International Monetary Fund, to the World Bank, and the various regional development banks; but on the issue upon which the LDC's put a high premium, debt relief, the administration has been extremely slow, especially in its own internal decisionmaking process. We are proposing reprogramming reflows from only 16 of the poorest developing countries. It does not seem logical to take money out of developing countries and put it into the U.S. Treasury if it was meant for development purposes in the first place.

So, I would say that at this point the record of the United States has been mixed. I think we have missed opportunities. I do not think we have recognized the changed economic situation and the

changed importance of the developing countries in our policies and in our view of the Third World.

NORTH-SOUTH CHALLENGES OF THE 1980's

This leads me, then, to what I see as the challenges of the decade ahead. The world is getting more complex and decisions are taking longer both to arrive at and to bear fruit. At the beginning of the 1980's we must contemplate the world we would like to see at the end of the decade.

I think that what has been wrong with the response of the United States and, indeed, of the other industrial countries, is that we have not been able to decide what kind of new international economic order would be to our own benefit while it is clear that the old one is not working very well, either for us or for the developing countries.

The challenges of the 1980's seem to be twofold. On the economic and political side, it is to maximize the mutual economic interest of both developed and developing countries in resuming growth; in providing a greater number of jobs; and in lowering inflation. I would argue that the role of the developing countries in all three of those—resuming growth, providing jobs, and lowering inflation—is much more important than it ever has been in the past.

The second challenge, of course, is the one I alluded to before, that is the common humanitarian interest in eliminating hunger and the worst aspects of absolute poverty by the end of the decade, a proposition which has been illuminated quite clearly both by the Brandt Commission and by the President's Commission on World Hunger.

A PROGRAM FOR IMMEDIATE ACTION

Now, having said all of that, of course, both maximizing economic growth and eliminating hunger are large tasks and they are not going to be accomplished in the remaining months of 1980. The best one could hope for in the new round of global negotiations, which I understand is to be agreed upon in September and opened in the beginning of 1981, is a clear perception about how you start upon that task. Even this will be difficult to achieve because, as I certainly do not have to tell elected representatives, this is not going to be an easy year—in a political sense or an economic sense, not only because of the impending elections but because of the fact that the people in the United States are going to be feeling, justifiably, particularly pressed.

Therefore, it is important for those of us who think north-south issues are crucial to be able to make a series of suggestions about what is doable in the next 12 to 24 months, that is, on the one hand, the United States and other countries in the industrialized world could deliver on, and on the other, is minimally acceptable to the south. At the end of my testimony we suggest five points, some of which will have budgetary impacts, some of which will not; some of which are doable by the United States and some of which demand international cooperation. Let me run through them briefly.

MEETING NEEDS AND COMMITMENTS

The first comes under the heading of meeting human needs and meeting our existing commitments. It is clear, whether one looks at Kampuchea, or Somalia, there are a variety of human situations which have the potential for tragedy unless something is done about it.

In terms of commitments, the United States is now getting in the unenviable position of having a bad reputation for not meeting its commitments—whether they are replenishments to the World Bank and the regional development banks; whether they are commitments made to the new government in Nicaragua, or whether it is the implicit commitment made to the new government in Zimbabwe. One begins to hear around the world that even if you were to propose such-and-such a change, how do we know that you will even come up with the resources and make the commitment to fulfill that pledge.

MAINTAINING THE WORLD'S FINANCIAL SYSTEM

The second set of issues comes under the heading of maintaining the world's financial systems. As members of this committee know—and I will not go into any great detail—the question of the new oil price hikes, and the already heavy debt of the developing countries, pose a series of threats to the international economy. This situation makes the expansion of resources for the International Monetary Fund and for the World Bank terribly important, as well as a change in the way the World Bank operates so as to allow it to do more program lending.

I was pleased to read the decision of the Interim Committee of the IMF at Hamburg last week apparently authorizing the managing director to explore some sort of new facility to use the surplus funds of the oil producers.

BUTTRESSING THE WORLD'S TRADING SYSTEM

The third area for immediate action is buttressing the world's trading system. The Tokyo round on one hand was a very positive development for the world's trading system in general. I would urge the United States to take the lead in announcing, and urging its other trading partners to, a standstill on any new trade barriers, particularly in terms of nontariff barriers. The pressures over the next few years for protectionism, whether it is in the auto industry, textiles, or shoes, are going to be very high. The world will suffer greatly if protectionism is allowed to become resurgent. It would be terribly important for the United States to make a pledge to erect no new barriers, as well as a pledge to move ahead rapidly on negotiating and implementing the codes agreed to in Geneva.

IMPROVING WORLD FOOD SECURITY

The fourth area for immediate action is that of improving world food security. The United States is now sitting on a great deal of grain as a result of the embargo on deliveries to Russia. The time to sign the Food Aid Convention and to reopen negotiations on the wheat reserve is upon us. We have been very lucky in the years

since 1975 that disaster has not come again, but the warning signs are there. The last crop year was the first year in 7 that world consumption outstripped world production. We still have a fair amount of grain in the world's bank, as it were, but if those trend lines continue we will be back in the position we were in the early 1970's.

INCREASING ENERGY SECURITY

Finally, the area to begin to move into action is an arrangement between the producers of oil and the consumers of oil. This is perhaps the most difficult proposition. There is a great deal of discussion in private circles about the possibility of a north-south deal on energy which would offer an indexation of price for a guarantee of supply and production. There is no clear indication that the oil producers would agree to it, or that any of the industrial countries could deliver on it. But, given the nature of the international oil economy and given the fact that we face a decade of uncertainty of supply—whether we have more Irans or not, that is, more countries dropping out of the production stream—this proposal is terribly important.

Therefore, in closing, let me say, what I would propose for the meeting of the Committee of the Whole in September and the new round of global negotiations is what we call a two-track approach. Clearly, the United States needs a new international economic order during the 1980's; equally clear is that you are not going to get it during the next 12 months for reasons of both efficacy and politics. Therefore, in order to overcome the current impasse, we need agreement on both sides, on what I will call a short-term immediate action recovery program for both north and south, while we begin the longer term task of restructuring the global economy.

Thank you very much.

[Mr. Sewell's prepared statement follows:]

PREPARED STATEMENT OF JOHN W. SEWELL, PRESIDENT, OVERSEAS DEVELOPMENT
COUNCIL

I am John W. Sewell, President of the Overseas Development Council.

The Council is an independent, nonprofit organization established in 1969 to increase American understanding of the economic and social problems confronting the developing countries and of the importance of these countries to the United States in an increasingly interdependent world. The views I express are my own and do not necessarily represent those of the ODC, its Board or staff.

It is a pleasure for me to appear today to discuss the state of the North-South dialogue and the pending U.N. Special Session. With only three months before the opening of the U.N. Special Session, it is indeed important to go back over the recent history of relations between the North and South and particularly the record of the U.S. in the continuing discussion that formally began at the 1975 Seventh Special Session of the U.N. General Assembly. It is especially crucial to enter this new round of negotiations with an understanding of the past and a clear vision of the priorities of the future. Much of the discussion that follows was drawn from ODC's forthcoming United States and World Development: Agenda 1980, and from a chapter entitled 'North-South

Relations" by my colleague John Mathieson and myself, which appeared in Setting National Priorities: Agenda for the 1980s, published by the Brookings Institution in March 1980. A copy of the chapter is attached.

The State of North-South Relations

Problems in relations between developed and developing countries have been the subject of a long series of sometimes constructive, but more often acrimonious discussions and negotiations between the two groups of nations. They have their origins in the 1950s in the Non-Aligned Movement, but have emerged full-blown in the last decade. Since the 1975 Seventh Special Session of the U.N. General Assembly, which succeeded in initiating a productive phase of these discussions after a particularly confrontational period, the talks have been known collectively as the North-South dialogue. In recent years this dialogue has focused on various aspects of the third world's demands for a New International Economic Order, most forcefully articulated in a declaration and action program that the developing countries pushed through the U.N. General Assembly at the height of OPEC's 1974 success in unilaterally raising oil prices.

The fundamental rationale for the New International Economic Order--which is a political movement as much as a set of economic objectives--lies in the third world's dissatisfaction with the international distribution of power, wealth, and income among developed and developing countries. These gaps were initially attributed to colonialism, but when political independence did not yield rapid gains in living standards, third world intellectuals and leaders began to scrutinize the international economic system itself for inequities and for what they considered economic colonialism.

The South's demands call for many changes in the rules governing international economic transactions and cover a wide variety of functional areas: commodity price-stabilization mechanisms based on buffer stock-piling and other arrangements; improvement of the generalized system of preferences, in which exports of developing countries are granted duty-free or reduced-duty entry into the markets of industrial countries; increased access to those markets for third world exports; international monetary reform; and cancellation or rescheduling of debt on a case-by-case basis. Other changes are: codes of conduct for the transfer of technology and for the activities of transnational corporations, increased industrial capacity in developing countries, and the implementation of special measures to help the least-developed third world countries and those developing countries most seriously affected by rises in the prices of essential imports.

Little real progress was made after the 1975 Special Session. The Conference on International Economic Cooperation (CIEC) began in late 1975 with hopes that its innovative organizational structure and comprehensive agenda (energy was specifically included) would lead to concrete agreements. Yet relatively little was accomplished and CIEC ended in June 1977.

A new period of muted confrontation began thereafter as the developing countries made little negotiating headway and as international meetings such as the Multilateral Trade Negotiations and the International Wheat Agreement ended without their needs being taken into account. By the fifth meeting of the United Nations Conference on Trade and Development (UNCTAD), held in Manila in May 1979, the "dialogue" had been reduced to a rhetorical tongue lashing of the North by the South for its poor performance. The polarization

between the North and South was completed at the Havana summit of the non-aligned countries in August 1979, where political questions overshadowed economic priorities. The UNIDO Conference in New Delhi in February 1980 merely served to underline the intransigence of both sides to come to some agreement.

However, within the Southern bloc some movement was taking place. The oil-importing developing countries were feeling increasingly impacted by the growing costs of petroleum and, both at Manila and Havana, began pressing the members of OPEC for more assistance and support in negotiating with the industrial countries. As a result OPEC agreed to include energy as part of the agenda of North-South discussion. This in turn was sufficient to get agreement from the industrial countries for a new round of global negotiations. The agenda and format for this new round is one of the subjects for discussion at the Special Session which begins in August.

Why Are North-South Relations Important?

There are several reasons why the United States should give higher priority in the future to relations with the developing world. One is the increasing interdependence between economic performance in the United States (and other industrial countries) and that achieved in the third world. The United States now has become more dependent on relationships with the rest of the world. Developing countries represent a major component of those relationships because of their markets for and sources of goods and their financial flows and investment opportunities. Indeed, the world economy is not functioning particularly well for either developed or developing countries. Development was once considered a problem confined to the poor

countries, and searches for new sources of growth tended to ignore the third world. Now, however, many realize that the economic performance of these countries can slow or stimulate world growth and that the third world can play a greater role in efforts to regenerate long-term international economic momentum.^{1/}

Obviously, dealing with today's global economic problems will require the active involvement of the developing countries. The rising number of countries in the third world is significant: in 1959, 92 countries were independent; at the beginning of the 1980s, the number has grown to 164, and all the new entrants are developing countries. This fact alone would complicate the management of any international problem but, in addition, a number of these countries are now seen to be economic actors of considerable importance.

Third, the agenda of North-South issues has broadened considerably during the last decade beyond the traditional concerns of aid and trade. As a group, the developing countries are pushing for major changes in the international economic and political systems created after World War II. Their agenda also includes new rules to govern the oceans, air waves, and other commonly shared global domains; the search for an international energy strategy; ways to increase world food production; human political, social and

^{1/} Developing countries not only supply a growing percentage of oil, raw materials, and low-cost anti-inflationary consumer goods, but they are now major and growing markets for the industries and farms of the United States and other industrial countries. A more complete discussion can be found in the appended chapter, "North-South Relations," by John W. Sewell and John A. Mathieson.

economic rights; and new policies and institutions to deal with world economic problems.

Fourth, American policymakers are now reassessing how important third world countries are to U.S. security and which policies can most effectively protect those interests. The United States sees itself as a global power and the ultimate guarantor of world peace. Maintenance of a global strategic balance is crucial as a safeguard against nuclear holocaust. From this perspective, the developing countries are important only to the extent that they affect the strategic balance. At the same time, however, thoughtful analysts realize that there are limitations to U.S. military power and that a number of third world countries and regions are of concern to the United States for reasons only tangentially related to the strategic relationship between the United States and the Soviet Union. The use of military power to achieve American objectives in the third world may no longer be generally applicable. A recent study identified 215 incidents in which U.S. forces were used for political purposes since the end of World War II (185 of which were in the third world) and concluded that the use of military force to achieve political objectives has primarily a short-run effect and is no substitute for long-run diplomacy. This line of reasoning suggests that U.S. interests can be much more efficiently promoted in the longer run by establishing mutually beneficial relationships with the developing countries.

Finally, neither the industrialized rich nor the developing countries are addressing what still remains the most pressing humanitarian problem: the plight of the world's poorest people. The conditions in the world's more

than forty poorest countries pose a crucial moral issue that will require special measures. The World Bank recently estimated that between 470 million and 710 million people will still remain in what is defined as "absolute poverty" two decades hence, depending on the pattern of growth rates. That is, even after a period of global economic growth, these people would lead a life "so limited by malnutrition, illiteracy, disease, high infant mortality, and low life expectancy as to be below any rational definition of human decency."

These problems pose one of the important priorities of the 1980s--the need to address the issues of world development that no longer can be resolved within national boundaries and to integrate a comprehensive approach to North-South relations into American foreign policy.

The U.S. Record

Current U.S. policy in this area appears to be dominated by the following implicit assumptions about international economic relationships and the developing countries: 1) that the international system created after World War II, beginning with Bretton Woods, is basically sound and does not discriminate against the South, though it does require gradual adaptation to deal with new problems; 2) that the world's economic system is best governed by countries in accordance with their economic power and the level of their economic transactions (i.e., by the industrialized, and perhaps the OPEC countries); 3) that the problems of developing countries should be attributed more to their own domestic than to international factors; 4) that in any case the important issues of national security, mainly seen in terms of military power and therefore East-West concerns, must have priority.

The policy that flows from this assessment is to pursue U.S. economic and strategic interests, understood in now traditional categories, making the minimum changes necessary to avoid confrontation with developing countries and undertaking some effort, for mainly humanitarian reasons, to help third world nations develop.

The diagnosis, however, is fundamentally inconsistent with that put forward by many analysts and leaders--in developed as well as developing countries. They offer an alternative set of assumptions: 1) that because international developments affect the economies of developing countries as much as (and in some cases more than) the economies of developed countries, the developing countries must have a greater decision-making role in policies that affect them; 2) the international system does discriminate against them, even if inadvertently; 3) that inequities in international wealth and transactions act as constraints on efforts to overcome third world poverty, even if poverty is primarily an internal matter; 4) that the industrial nations are in a position to offer much more support to developing countries than they have to date; 5) that growth and progress in the third world will over the next decade have an important impact on growth and progress in the industrial world. The policy recommendations emerging from this analysis include basic institutional and procedural reforms aimed at the transfer of some economic wealth, income, and power from developed to developing countries.

Though the opposing sides in this debate tend to present their cases in black and white terms, there is in reality, some validity to both arguments. Third world nations have a legitimate claim in calling for measures to bring about a more equitable distribution of global wealth and income, but changes on the international level must be accompanied by domestic reforms. Parts of the

Bretton Woods system are still viable, even though that system needs major reform, especially in the monetary field, in order to cope with a vastly different set of international needs than those perceived by its founders in 1945. Decisions taken by the major industrial powers will have a perhaps decisive impact on resolving global economic problems, and some problems in the developing countries are amenable to internal measures. Most observers now agree that the industrial countries will need the cooperation of the developing countries to deal with global economic problems--whether the members of OPEC on energy and finance or the advanced developing countries in trading agreements--and will need growth and progress in the third world as an important part of the stimulus to global economic progress. While it is true that some parts of the "New International Economic Order" as proposed by the developing countries are not well designed, and would not necessarily result in greater internal equity, it is equally true that the policies of the industrial world have been neither imaginative nor constructive. As one astute Southern observer, Mahbub ul Haq, has written, "The real disappointment has been that the North has not put forward any counter-proposals that it considered more reasonable. The North has been content to remain frozen in an essentially defensive posture--finding fault with the agenda presented by the South, and bargaining for more time by readily agreeing to formal negotiating machinery and then frustrating all attempts to reach some meaningful conclusions."

The U.S. record on these issues over the past few years illustrates the same lack of clarity about goals as its record on many other international and domestic matters. Assessment of its effectiveness tend to reflect the differing perspectives of the observers on the nature of the problem and the

program because of the lack of monetary legislative action.

objectives. Administration spokesmen often speak of "reduced hostility" to the United States in the developing countries and a "dramatic improvement" in North-South relations. Yet so sympathetic a critic as former West German Chancellor Willy Brandt wrote recently in the report of his commission, "... the United States, which in the early 1960s was a leader in this field, has substantially reduced its international development efforts. . . . I understand many of the reasons for the dwindling U.S. commitment but I sincerely hope that they do not reflect unchangeable aspects of American political life."

The United States alone cannot be held responsible for the problems currently plaguing the economic system. But its leadership position demands a more consistent and forthcoming attitude than its past record describes. The current administration came into office amidst growing expectation for change in the international arena. President Carter, in addressing the Venezuelan Congress in March 1978, stated "The industrial nations . . . cannot by themselves bring about world recovery . . . for the rest of this century, the greatest potential for growth is in the developing world." But action to back up this belief has been uneven.

In the area of trade the record is mixed. Progress toward implementing mutually beneficial commodity agreements has been slow. The administration has resisted pressures to erect new barriers to trade, however, and the exports of developing countries to the United States continue to grow at a steady rate.

The Tokyo Round of trade negotiations, for the most part concluded in 1979, provided some benefits to developing countries, but the absence of third world signatures on the agreements signifies their lack of enthusiasm for the results. The major agreements on both tariff and nontariff items were negotiated among the leading developed countries, with only minor attention being paid to

the needs of developing countries. Although this was the first serious effort in the history of trade negotiations to involve the developing countries, the negotiations did not address some of the issues of crucial importance to the third world, such as the elimination of existing quantitative restrictions on certain categories of their exports.

The U.S. record on development assistance is poor, despite the Carter administration's initial commitment to provide more aid. Congressional support for economic aid has dwindled and public opinion is ambivalent; the American people are in favor of efforts to assist the poor throughout the world, but question the efficacy and distributional results of existing programs. The most recent report of the Organisation for Economic Cooperation and Development shows U.S. official development assistance in 1978 at 0.23 percent of gross national product, far less than the 0.7 percent objective. This places the United States thirteenth among the seventeen donor countries of the Organisation for Economic Cooperation and Development, although it represents a modest increase from the record low of 0.22 percent of U.S. gross national product recorded in 1977.

The United States has supported a number of measures to increase the availability of financing to countries facing balance-of-payment problems, particularly through additional facilities in the International Monetary Fund. But the United States has been less responsive toward rescheduling debt or other forms of debt relief, a major demand of the developing countries. The industrial countries have agreed to consider relieving the debt of the poorest countries by easing the terms on past loans that most of these countries have received. A number of donor countries have already granted debt relief to the poorest countries. But the United States has yet to implement its debt relief program because of the lack of necessary legislative action.

To its credit, the United States has focused on certain issues of concern to developing countries, producing some highly positive results. The negotiation and passage of a new Panama Canal treaty signaled the willingness of the United States to deal with third world nations on a more equal footing. American efforts to reach peaceful settlements to conflicts in the Middle East and southern Africa have been commendable. The United States has taken the lead in extending relief to Vietnamese and Cambodian refugees, but in the latter case the momentum for assistance came from private initiatives rather than from the administration or Congress.

The North-South Challenges of the 1980s

The next few years appear to be a particularly inauspicious time for increased attention to the main problems at issue between the United States and the developing countries. The industrial economies of the North are beset by an apparently intractable set of domestic economic problems--slow growth and lagging productivity; structural unemployment; and rates of inflation that are eroding individual economic gains and leading to a pervasive sense of insecurity about the future.

For the United States, the current period seems particularly difficult. The turmoil in Iran and the sudden intervention of the Soviet Union in Afghanistan has raised the specter of a renewed cold war centered on U.S.-Soviet competition in the third world.

The heightened concern about security issues does not, however, diminish the importance of simultaneously addressing world development problems and formulating longer-range policies on American relations with the countries of the third world. In the 1980s U.S. interests in these countries--whether they concern economic relations and development, human rights and basic needs, or

nuclear nonproliferation--can no longer be subordinated to issues of military security or relations with the U.S.S.R. and with America's industrial allies in the Organisation of Economic Cooperation and Development.

It is against this background that the development challenges for the decade must be considered.^{2/} They are twofold. The first challenge is economic and political--to maximize the mutual economic interests of developed and developing countries in resuming economic growth, providing employment, and lowering inflation. Policy measures designed to address these problems will involve expanding trade, facilitating development finance, and eliminating a series of possible constraints to growth stemming from insufficient production of energy, food, and raw materials. In each case the aim should be to expand global output and efficiency. Properly constructed, relations between developed and developing countries can be mutually beneficial; that is both sides can over the longer run gain appreciably from a series of cooperative policies that take into account the needs and capabilities of developed and developing countries.

The second major challenge is rooted in the common human interest in eliminating hunger and the worst aspects of absolute poverty by the end of the century. Meeting this challenge would include establishing policies to support more rapid progress by the poorer countries which by and large will not benefit greatly from changes in the trade and financial systems, and to sharply improve the condition of the world's poorest people. In the process,

^{2/} These issues are analyzed in much greater detail in ODC's forthcoming United States and World Development: Agenda 1980.

the goal should be to eliminate hunger throughout the world within the next two decades. These tasks will involve a range of efforts to reform and restructure the international system, and to increase employment, speed up rural development, and to devise special programs to meet such basic human needs as health and education as well as to limit population growth. These appear to be herculean tasks at a time of economic malaise and when the spirit of development cooperation seems to be on the wane. Yet there is a growing consensus in both developed and developing countries that these goals are not only highly desirable but also quite feasible.

A Program For Immediate Action

Obviously, it will take some years to resolve these complex and important issues. There is now a need also to set forth a series of short-term proposals that can be discussed at this year's Special Session in light of these North-South challenges. Creating short-term proposals is necessary in order to deal with a series of pressing problems on which action cannot be delayed. The actions now taken will in turn have a strong influence on the global economic picture of the next decade and beyond. What follows is a series of tentative proposals that might provide the core of a position for the United States and the other industrial countries in the new round of global negotiations that is scheduled to open early in 1981. They are designed to be acceptable both to the United States and also to the developing countries.

1. Meeting Needs and Commitments

At the most basic level, any U.S. position on North-South issues should both deal with immediate human needs as well as with meeting existing commitments. In the former category, assis-

tance to Cambodian and Somalian refugees are the most obvious examples. While in the latter category, this country's commitments to support the new regimes of Nicaragua and Zimbabwe should be upheld. It is ironic that the current support promised for the Mugabe government is low compared with that discussed five years ago for a transition regime.

Furthermore, it is very important that we maintain our commitment to the multilateral institutions, such as the World Bank, the regional development banks, and the U.N. agencies. And despite current budgetary problems, it is critical not to cut further the already low level of U.S. development assistance. Rather, it is now the time to commit this country to higher levels of aid in the future. A goal of reaching 0.5 percent of GNP by FY 1985 is not only desirable but feasible. Much of the responsibility here, however, will lie with the Congress.

2. Maintaining the World's Financial System

The world's financial system has undergone a series of severe shocks in recent years with considerable costs for both rich and poor countries. The developing countries now are important participants in international financial transactions because of their growing economic size and the growth of their debts. These debts now total over \$300 billion and will continue to grow in the next few years due to oil price hikes and global

inflation. The need in the short-run is to ensure the continued flow of financing to handle their current debt burden, while allowing them to maintain badly needed development progress.

In this regard, the programs of the International Monetary Fund are crucial and its resources should be augmented expeditiously. (The announcement from the Hamburg meeting of the IMF's interim committee that exploration of some sort of "oil facility" will take place is to be welcomed.) The IMF, however, should review the conditions it imposes on countries in balance-of-payment deficits. In many cases the burden falls disproportionately on poorer groups. The resources available through international banks are also critical in this area. Existing and proposed levels of financing of these institutions should be approved and serious consideration should be given to the proposal of the Brandt Commission to change the relationship between the capital of the World Bank and its borrowing from the current ratio of 1 to 1 to 2 to 1.

3. Buttressing the World's Trading System

The growth which has taken place in world trade over the last decades has been spectacular. Yet the current outlook is not favorable. The growing economic problems of the industrial countries have given rise to increased pressure for protectionism which threatens the world's trading system.

To halt this trend, the United States and the other industrial countries should be prepared to announce and enforce an immediate

standstill against any new trade barriers, particularly in the form of nontariff barriers. In addition, the various codes called for in the recent multilateral trade agreements should be implemented as rapidly as possible, particularly an acceptable safeguard code.

4. Improving World Food Security

Since the Rome World Food Conference in 1974, the stated goal of most governments has been to improve the world food security by, among other things, negotiating a global grain reserve system. Yet no such system exists. Since 1975, the world has been lulled into a sense of food security as harvests have been generally good. Yet there is no reason for complacency as the past crop year has shown. This year, for the first time in the last seven years, world consumption of food outstripped production.

The events in Afghanistan and the subsequent embargo on wheat sales to the Soviet Union have placed the United States in a unique position. The availability of four million tons of wheat previously destined for the Soviet Union enables the United States to create a government-held reserve to backstop the present food aid program, ratify the new international food aid convention, and reopen negotiations on an international wheat reserve.

5. Increasing Energy Security

Since 1974, producers and consumers of energy have steadfastly refused to engage in serious negotiations that would lead toward an agreement or understanding on prices and levels of production. The cost of this impasse has been high as oil prices have jumped in sudden severe and unpredictable spurts, leading to slower growth and rampant inflation.

The petroleum economy in the decade ahead will remain volatile as demand from both industrial-country and developing-country consumers will remain high, while supplies remain uncertain. The outline of a producer-consumer agreement on oil security has been suggested by the report of the Brandt Commission. It would include:

- a) agreement on levels of production to avoid arbitrary reductions and special measures for the developing countries;
- b) specific agreement on targets for conservation by the major consuming countries;
- c) pre-set price levels to avoid sudden increases that are high enough to encourage production as well as conservation with the anticipation of eventual indexing of oil prices to a basket of selected currencies; and
- d) major investments in the further exploration for conventional energy, such as oil and gas, as well as in renewable energy technologies upon which all countries will have to depend in the future.

The immediate action program just outlined is admittedly ambitious and its implementation will no doubt place heavy demands on the scarce time policymakers have available. However, 1980 and 1981 will present the United States with an opportunity to lay solid groundwork for future cooperation on issues of world development. This short-term action plan would help strengthen this base. The moment should not be wasted.

Despite the inconclusive global negotiations in past North-South forums and the inauspicious economic and political climate, the "new round of global negotiations" should not be dismissed as either unimportant or irrelevant. The global economic and political problems have become more urgent and the need for some sort of a new international economic order is as important for the North as for the South. Therefore, the next eighteen months will provide an opportunity to analyze the prospects for substantive negotiations on global economic issues..

In order to overcome the current impasse, serious consideration should be given to a two-track approach to negotiations, whereby the long-range demands of the developing countries for major changes in the existing international economic system would not be sacrificed to the desires of the industrial world to promote short-term economic recovery. In order to assure the developing countries of future intentions, the industrial world must be willing to provide a basis for agreement on a selected number of issues--a small package perhaps, offering modest but creative gains, so as to restore momentum to the urgently needed negotiating process between North and South, while restoring health to the economic system. Hopefully, the package of short-term proposals laid out in this paper provides a set of "opening offers" for Northern governments to facilitate this process.

Mr. BINGHAM. Thank you, Mr. Sewell.
We would like to hear next from Mr. Seifman.

**STATEMENT OF RICHARD SEIFMAN, EXECUTIVE DIRECTOR,
ECONOMIC POLICY COUNCIL, UNITED NATIONS ASSOCIATION**

Mr. SEIFMAN. Thank you, Mr. Chairman.

My name is Richard Seifman and I am the executive director of the economic policy council of the United Nations Association of the United States of America. I am pleased to be testifying this afternoon and the views which I express are primarily my own. The United Nations Association, as you may know, is a unique entity in the private sector of the foreign affairs field. It is both a membership organization and research institution, and it operates a wide array of public education programs on policy issues facing the United States. We have almost 175 chapters across the country and close to 130 organizations in our Council of Organizations. The policy studies program brings together noted experts and leading citizens to discuss crucial foreign policy issues.

It has become conventional wisdom that the world is increasingly interdependent and that the United States is more and more deeply affected by the state of affairs in the rest of the world. It is clear, however, that the American people, and the American Government as well, have not yet come to understand the profound consequences of this development. We have reached the end of an historical epoch in which we, unique among nations, were cushioned by our isolation, our wealth, and our power from changes taking place in the rest of the world. We had a wide margin that permitted us, in our external policy, to ignore the pressures of widespread poverty and unrest, and at home to become wasteful and increasingly noncompetitive in our economic activity. Now this margin is gone, or nearly gone. It is time to work with other countries toward more equitable economic arrangements that still protect our most important interests. It is time, at home, to rationalize our economic lives to preserve our system in a world that increasingly presses in around us.

Against this background, I would like first to address why it is important that the United States actively participate in the forthcoming U.N.-sponsored economic discussions and what may be on the agenda; second, to focus primarily on the modalities of U.S. participation, particularly as to the involvement of the private sector; and third, while others will deal in greater depth with the macroeconomic and development issues, to make some suggestions for further study.

AGENDA FOR SPECIAL SESSION

At the close of the sixth special session of the U.N. General Assembly in May 1974, developing country delegates enthusiastically supported resolutions calling for the establishment of a new international economic order (NIEO). This initiative contemplated sweeping changes in international political and economic relations. It was adopted after the Organization of Petroleum Exporting Countries (OPEC) shocked the industrial world with what seemed to be astronomical oil price increases—for the first time.

One year later, developed and developing countries agreed to the establishment of the Paris Conference on International Economic Cooperation (CIEC). While it took the CIEC conferees 10 months more just to agree on an organizational structure for the north-south dialog, the atmosphere of confrontation had begun to subside. By the time of the seventh U.N. special session in September 1975, prospects for greater cooperation and more rational discussion had improved: "Consensus" not "contentiousness," was the direction the economic pendulum seemed to be moving toward. UNCTAD IV in the spring of 1976 was not the high point of cordial economic relations, but some new ideas were put forward. Much of the developing world, however, was prepared to mark time until the U.S. Presidential election process was completed. The election came and went but the U.S. position did not substantially change.

As we are all aware, we are again in the midst of a Presidential election. This second time around, it is questionable whether the developing countries will strike a similar wait-and-see pose. Certainly economic conditions have not stood still. Inflation and recession plague the majority of economies, both developed and developing. It is not hard to find doomsayers who proclaim: "Economic apocalypse now." They hold the view that the stresses on the international trading and monetary systems over the last few years have been overwhelming, and that the 1940's Bretton Woods system, put in place essentially by Western economic policymakers, is collapsing. While there are pressures which pose a threat and a challenge to all governments and to the orderly functioning of the entire international economic system, I do not believe the situation to be that bleak. Any global hope, however, for a return to earlier, healthier rates of growth, employment, improved living standards, and lower inflation will require changes in the attitude and policies of both developed and developing countries. Eventually, we will have to be more appreciative of each other's problems, more open to a broad range of new concepts, policies, and institutions.

Of the economic events before us in the early 1980's, the U.N. special session in the fall of 1980 will draw world attention to the current state of relations between the advanced and developing nations. It will also provide the framework for the global negotiations which will begin probably in early 1981. In my view, the global negotiations will be of more significance, since the resolutions of the special session will be advisory and not binding on governments. In contrast, what conceivably may emerge from the negotiations—should there be any progress—are binding commitments on governments. Such commitments would in the case of the United States, of course, require congressional approval.

Intergovernmental discussions to define agenda areas for concentrated negotiation are in process; they will be refined at the U.N. special session and formalized by 1981; that is, post-U.S. Presidential elections. The agenda will probably be a mixture of European Economic Community and U.S. preferences—food, energy, and external balances—and the Group of 77 preferences—trade, development, money and finance, energy, and raw materials. The final agreed-upon agenda will include, no doubt, three or four major substantive areas on which very tough multilateral negotiations will ensue.

If there is to be progress in these negotiations, for the United States it may mean resource commitments as well as changes in domestic policy which we have not had to consider heretofore. This will require passage of legislation, which will only come about if there are constituencies prepared and mobilized to support congressional action.

PRIVATE SECTOR PARTICIPATION

I believe it very important that the U.S. Government begin to think about how to organize itself now to engage those private groups who might be most informed and concerned with this effort; in other words, to interact on a continuing basis with key domestic interests at the same time intergovernmental negotiations are going forward. This means establishing a two-way communication mechanism, a structure which allows the U.S. Government to hear the views of the nongovernmental sector during the early phases of the negotiating process, and at the same time communicate to it the Government's positions. This would be a very different enterprise from the kind of informational activities the nongovernmental community (NGO) is now planning for the 1980 special session. Let me mention here that there are already NGO committees established, meetings scheduled, and a newsletter published entitled "NIEO Special Session Action Notes." This is being done primarily under the auspices of the International Coalition Development Action—ICDA—a loosely knit coalition of NGO's from 18 industrialized countries. Its U.S. member body is the National Coalition for Development Action. Other groups such as the YMCA also have general audience programs planned.

What I have in mind for the global negotiations is a longer term, more specialized structure, paralleling mechanisms which were so successfully developed for the Multilateral Trade Negotiations (MTN). Well before the outlines of any multilateral trade agreement were known, the U.S. Special Trade Representative's Office established in 1975 a system of private sector committees to supply advice and information. They furnished U.S. Government negotiators with the views of representative elements of the private sector with respect to negotiating objectives and bargaining positions, before any agreement was reached. Procedures were developed which insured that the committees supplied advice on a continuing and timely basis, both during preparations for and in the course of actual negotiations. This advice covered all negotiating objectives and positions, as well as information on significant issues and developments arising in the course of the negotiations.

The private sector advisory structure was made up of committees with different responsibilities. At one level there was an advisory committee, the Advisory Committee for Trade Negotiations (ACTN)—which had the broadest responsibilities and provided overall policy advice on any agreement. At the next level, industry, labor, and agriculture each had a policy advisory committee (PAC) that provided general policy advice and was representative of that group in the economy. Finally, there were specific technical or sector advisory committees—TAC's or SAC's: 27 for industry, 6 for labor, and 8 for agriculture. These technical groups advised on the negotiating issues as they bore on their particular sector.

Applying this concept to the prospective global negotiations, at the ACTN level you would have the broadest policy interest groups represented at the highest level; that is, the President's Export Council; leaders of public interest groups such as the League of Women Voters, the U.S. Conference of Mayors, the Committee on Economic Development, the Conference Board, the Overseas Development Council, and New Directions; the heads of energy, agriculture, and manufacturing companies; the head of the AFL-CIO; important figures from the international banking and investment community; and so forth. This group would meet relatively infrequently, say three or four times a year, with its meetings chaired by the chief negotiator for the United States in the global economic negotiations.

Within a specific substantive agenda area, such as food, there would be a food policy advisory committee which would have 45 to 50 members representing producers, processors, consumers, and traders covering a broad spectrum of commodity groups and farm organizations. This group would meet about six times a year, chaired by the person responsible for the specific area. It would meet in order to have high-level briefings, as well as detailed discussions of U.S. requests for and offers of concessions. It would be involved in providing policy and strategy advice to the negotiating groups working on international arrangements to minimize agricultural trade frictions, to develop agreements on food aid, agricultural capital and technical assistance, production and marketing arrangements, and so forth.

Technical groups would be established in the various major sub-categories. These should be comprised primarily of experts who would be called upon to provide technical advice and information. They would meet as frequently as might be required, depending on the pace of the negotiations. They would be similar to the technical advisory committees formed for the MTN.

At the conclusion of any agreement on the package of agreements, these advisory groups could be mandated to report to the President and the Congress as to the extent the agreements serve the economic interests of the United States, both overall and with regard to a particular sector.

I do not have a firm suggestion as to where in the executive branch full responsibility for this advisory structure ought to rest. The private sector advisory committees still exist under the terms of the Trade Agreements Act of 1979, section 1103, and the U.S. Trade Representative's Office has been given broad responsibilities in the reorganization of U.S. trade machinery. What is paramount is that whoever has overall responsibility for the negotiations also has the nongovernmental advisory structure reporting to him/her.

Let me emphasize again the need for early commencement of planning for such private-sector involvement. Whatever the negotiating time frame or the precise agenda to be able to parallel what was done in the context of the MTN requires staff and resource commitments. Under our budgetary process considerable leadtime is needed to have funds appropriated. Particularly in this period of budget reductions, it is not highly likely that any department of the executive branch is thinking about resource initiatives along these lines, certainly not for inclusion in fiscal year 1981 re-

quests—or getting OMB approval. The impetus will have to come from outside, from Congress. It is in the interest of Congress actively to support such an undertaking because it could vastly simplify the consideration and enactment of necessary legislation.

SUGGESTIONS FOR FURTHER STUDY

I have so far dealt with essentially organizational matters related to U.S. preparations. As to progress in the substantive discussions, so far there is little to suggest that in the preparatory meetings, either for the special session or the global negotiations, developed and developing countries are coming up with new, imaginative approaches which have high probability of breaking deadlocks which have plagued past north-south encounters. The LDC's continue, as a group, to press their set of broad economic principles, specific concessions, and international monetary decisionmaking demands, and the advanced countries continue to strike essentially a defensive, damage-limitation posture. There is LDC-developed country discussion about focusing on a problem-solving approach, agreeing on priorities and an early action program. This is not very different from what has been done over the years, but it may be the only sensible way to proceed, at least at the public intergovernmental level.

It therefore falls on those outside the intergovernmental negotiating environment to propose ways out of the impasse which, if put forward by a government, could be either misused or rejected out of hand. Let me suggest one idea which might be worthy of study:

As we know, many industrialized nations, certainly the United States, have suffered negative trade balances with the developing world, if you include in the latter definition the OPEC nations. The least developed countries of the LDC group are desperately in need of more foreign assistance. These two factors might be selectively linked to the benefit of both. Thus, if industrialized nations promised that improvements in their trade balance will lead to incrementally increasing their concessional foreign assistance to the least developed countries, the north-south dialog might be well advanced. For argument purposes, let us say the least developed countries are defined as those countries where the per capita income in 1978 dollars is under \$500.

Suppose, for example, that the U.S. trade deficit with the developing world was \$10 billion one year and \$9 billion the following year. And suppose, once again, that industrialized nations had agreed during the course of the upcoming global negotiations that each nation would contribute 5 percent of the improvement in its trade balance with all developing countries to a multilateral development assistance mechanism, such as the International Development Association, or for that matter, a vastly expanded U.N. Capital Development Fund. The money collected—a trade dividend, in effect—would be distributed among the least developed countries in the form of highly concessional foreign assistance, essentially grants. In this example, the United States would increase its foreign aid by \$50 million. Such an agreement might also provide that an industrialized nation would raise its percentage contribution, say to 7.5 percent, if its trade account with the developing world moved from deficit to surplus. This resource transfer mechanism

could be tested for a trial 5-year period. If successful, it would become a permanent intergovernmental commitment.

With your permission, I would like to submit for the record a one-page article I wrote on this subject which was published in the *Journal of Commerce*.¹

A second thought would be to examine the linkages between food and energy, two issues of global importance. It is generally recognized that the production-to-consumption food chain involves large energy inputs, and that energy supply and price factors have direct implications for food issues now and into the 1990's. But recent developments add another dimension to the linkage. Several major food producing countries are engaged in or are actively considering national programs converting crops into alcohol for fuel on a commercial scale. The leading countries in this group include the Philippines, Kenya, the Dominican Republic, and Jamaica. Thus, national programs to direct agricultural resources to production of fuel crops are gaining momentum.

At the moment, world grain stocks are near record levels in the aggregate. Grains, in addition to sugarcane and cassava, are looked upon as the most promising crops. But large food reserves are the result of excellent crops in recent years and they are stocks on hand, not land which could be rapidly put into production following an unsuccessful global harvest. The Worldwatch Institute has recently issued a paper entitled "Food or Fuel: New Competition for the World's Cropland," which provides useful background information. In some cases—not only for developed, but developing countries—there may be in the future hard agricultural policy choices to be made between food and fuel crops. Thus, attention will be directed at how best to manage allocations which in the United States may be only marginal changes in land use, but are far more significant elsewhere. We should begin thinking about international recommendations regarding national policies on converting food to fuel. What, if any, linkage should there be between supply commitments of OPEC nations and other energy exporters, and world food needs and any agreement on national agricultural energy conversion policies? The answers are not now clear, but what is reasonably certain is that there will be radical changes in technology and in economic realities which will effect these linkages and choices.

I have taken a considerable amount of your valuable time to touch briefly on some organizational preparations and substantive concepts bearing on the international economic discussions which will take place in 1980 and beyond. In closing, I would like to say that I think U.S. negotiators have done remarkably well under very trying circumstances. The difficulties they face on a daily basis in multilateral economic fora are immense—frustrating, time-consuming, demanding from every vantage point. They deserve public recognition and gratitude for the way they have performed.

Mr. BINGHAM. Thank you very much, Mr. Seifman.

We will hear now from Mr. Erb of the American Enterprise Institute.

including the 1980's Kennedy Round and the 1980's Kennedy Round.

¹ See appendix 3.1 about significant reductions in trade barriers.

STATEMENT OF RICHARD D. ERB, RESIDENT FELLOW, AMERICAN ENTERPRISE INSTITUTE FOR PUBLIC POLICY RESEARCH

Mr. ERB. Mr. Chairman, to stay within the time frame, I will read my statement so that I do not go over the time limit by wandering.

I am honored to have the opportunity to testify before your subcommittees on the subject of the "north-south Dialog: Progress and Prospects."

My name is Richard D. Erb and I am a resident fellow at the American Enterprise Institute for Public Policy Research. I am testifying today in my personal capacity and not as a representative of AEI. I have served in the U.S. Government over the period from 1971 to 1976 as Deputy Assistant Secretary of the Treasury for Developing Nations Finance and as an Assistant Director of the White House Council on International Economic Policy.

In responding to the questions raised in your letter of invitation, I will initially skip the first three and begin with the fourth question which addresses the subjects of the U.S. national interest and the U.S. vision as they relate to the international economic system. By focusing on the north-south dialog per se, the first three questions establish the wrong frame of reference for beginning a discussion of north-south issues.

Such an approach diverts attention from the system that is in place, the principles underlying that system, and the U.S. national interest which is served by the system. Indeed, discussions of the new international economic order often assume that the old system no longer exists. While there are many weaknesses in the existing system and many ways in which it can be improved, developing countries as well as developed countries have benefited from that system. Although much public attention has been focused on the south's call for a new international economic order, the existing system faces a more serious challenge which I will discuss shortly.

THE U.S. NATIONAL INTEREST

The United States played a leadership role during the 1940's in laying the foundation for the current system and a leadership role during the first two decades or so in building upon that foundation. Although the relatively greater size and strength of the U.S. economy vis-a-vis the economies of Japan, Europe, and the rest of the world enabled the United States to take a leadership role, the United States was also guided by a consensus of what was in its national interest and a vision of the kind of international economic system which would serve that national interest.

At least during the early years of the postwar period, U.S. international economic policies were guided by a consensus—forged at the time in part by a perception of the Communist threat—that U.S. economic, political, security, and humanitarian interests would be served not only by economic growth and development in other countries, but also by growing international economic linkages among countries. Of course, "other countries" meant those countries outside of the immediate hegemony of the Soviet Union and the People's Republic of China.

From an economic perspective, the consensus was based on the belief that economic development abroad in combination with growing international trade would provide markets for U.S. products and new products for U.S. consumers. From political and security perspectives, the consensus was based on the belief that economic development abroad would reduce the likelihood of political instability and that growing trade would bind the non-Communist nations more closely together. From a humanitarian perspective, the consensus was based on the belief that economic development would reduce the want and deprivation found throughout the world.

THE U.S. VISION

In addition to a relatively strong consensus regarding the national interest, there also was a reasonably strong consensus within the United States, at least among the intellectual and political leadership of both parties, regarding the kind of international system which would serve the national interest. The word "system" may be too strong, for it would be more accurate to say that there was a U.S. consensus on the kind of principles which should guide the policies and actions of governments as they affect international economic flows. Much of the thinking about these principles was influenced by memories of the late 1920's and 1930's when trade wars and currency restrictions exacerbated the world depression.

Among the most important principles were the following:

One, open national markets: Inflows and outflows of goods, services, money and capital should not be subject to restrictions or subsidies.

Two, nondiscrimination: All foreign countries are to be treated alike.

Three, reciprocity: A country receiving trade concessions should be willing to make concessions in return.

Four, multilateralism: Countries should deal with international economic issues primarily through a multilateral framework and not on a bilateral basis.

Five, assistance: Richer countries should be willing to provide assistance to poorer countries.

To be sure, the real world deviated significantly from these principles but they served, and I believe still serve, as important guidelines for government policies and actions. While such principles do not prevent governments from distorting international economic flows with subsidies and restrictions, the existence of such principles puts the onus on those governments which do deviate. In addition, such principles serve as a basis for formulating explicit rules of conduct among nations and for dealing with economic conflicts.

Throughout the postwar period, the United States aggressively pursued its vision of an international economic system through bilateral initiatives as well as through multilateral institutions, including the GATT, the IMF, the OECD, and multilateral development banks, including the regional development banks and the World Bank.

Within the context of the GATT, major multilateral trade negotiations, including the 1960's Kennedy round and the 1970's Tokyo round, brought about significant reductions in trade barriers.

Within the context of the IMF, steps were taken by governments to reduce and eliminate restrictions on money and capital flows. In addition, the IMF provided a framework within which countries could obtain financing to meet short-run adjustment problems in lieu of imposing excessive restrictions on trade and finance. Within the development banks, assistance and capital were made available to countries which otherwise would have had to do without. In each institution, the United States played a major role since political power was related to economic size and contribution. However, during the postwar period, U.S. political power in those fora declined relative to other countries as the economies and contributions of those countries increased in relative size.

It is not necessary to document here the extraordinary performance of the world economy through most of the postwar period. Wartorn economies were rebuilt, and many countries that were once poor are now included in the category called developed nations. At the same time, many of the countries still classified in the developing nations category have experienced growth rates that, if sustained, will rank those countries among the developed. I believe that most economists would agree that without the progress made toward creating a more open international economic system during the postwar period, such growth would not have been possible. Most nations of the north and the south today would be at lower standards of living.

THE SYSTEM UNDER CHALLENGE

Although it had performed well by historical standards, the international economic system since the early 1970's has been under siege from two major challenges. The most public of these challenges has been the new international economic order. Although the new international economic order movement among the developing nations began in the midsixties when the group of 77 emerged at the first session of the United Nations Conference on Trade and Development, the new international economic order was not fully articulated until the early 1970's when the U.N. General Assembly approved the "Declaration of the Establishment of a New International Economic Order."

I will address the new international economic order shortly, but I would first like to outline what many economists consider to be the most fundamental challenge to the postwar international economic system. Since the early 1970's, not only has world economic growth been lower on average, but growth has been more volatile. In addition, there have been sharp fluctuations in inflation in all countries, with inflation rising on average in most countries. Finally, the world economy has been subjected to a number of sector shocks, the most significant of which were the oil price increases of 1974 and 1979.

These developments have threatened the international economic system in a number of ways. The most significant of these has been the growth of government measures designed to manipulate trade both through restrictions on imports and through subsidies on exports. Looking out to the near term, protectionist pressures are likely to grow during the remainder of 1980 and 1981, as world

economic growth declines and many countries experience a recession.

The causes of lower growth and higher rates of inflation are often looked for in the international sphere. For example, the collapse of the Bretton Woods system of fixed exchange rates is sometimes cited as a cause of the problem. A related development, the decline in the dollar, is also blamed. But those are symptoms and not causes of the problem. In my judgment, exchange rate fluctuations, accelerating inflation, and the decline and volatility of world economic growth have their roots not in the weaknesses of the international economic system, but primarily in the mismanagement of economic policies since the mid-1960's, especially in the United States.

To be sure, the growth in international economic linkages during the postwar period has made the management of domestic economic policies more difficult. For example, external developments—ranging from oil price increases to the growth of the eurodollar market—can have domestic repercussions which are difficult to adjust. In addition, domestic policymakers are often surprised by unexpected shifts in foreign economic activity or in foreign government economic policies.

There are those who believe that the interrelations among national economies require greater coordination of national economic policies. In my judgment, we do not know enough about the economic interactions among nations to be able to coordinate national economic policies—even if governments could politically agree on the objectives which a coordinated policy might pursue. The domestic economic policy conflicts between the Carter administration and the Governments of Japan and Germany in 1977 and 1978 provide an example of governments differing not only over objectives, but also differing over how their national economies work and interact.

Greater exchange of information among governments regarding the prospects for their domestic economies and their domestic economic policies should be encouraged. However, the major means for dealing with inflation, declining growth, and fluctuations in economic growth, can be found in domestic policies—especially in an economy like the United States. Although the United States is relatively smaller today, domestic economic developments still have a significant impact on the rest of the world economy.

THE NORTH-SOUTH DIALOG: MAIN ISSUES AND RESPONSES

Your letter of invitation to these hearings asked for comments on the main issues in the north-south dialog and an assessment of the progress made to date. In my judgment, the fundamental issue can be described as follows: The new international economic order focuses on principles that call for an equal distribution of economic resources and political power while the existing international economic system focuses on principles that emphasize growth and the efficient utilization of world resources.

These differences are not absolute, since advocates of the existing systems do not reject the need to deal with income inequalities. Nor do the advocates of the new international economic order ignore the importance of economic efficiency in their quest for a more equal distribution of resources. But a system which is based

on principles of economic and political equality will have very different institutions and very different rules of conduct among nations from one that emphasizes economic growth and a more efficient utilization of existing resources.

I am sure that others who testify before these subcommittees will provide more detailed background on the specific demands made by the south since the early 1970's, as well as background on the response of the north to date.¹ As Dr. Sidney Weintraub of the University of Texas recently wrote in the February 1980 issue of the *World Economy*:

There has been an institutional flowering over the last decade as each institution has spawned substitutions. Now one or more north-south meeting is taking place just about every week of the year. But beyond this, and recognizing that the scorecard of achievement has not been absolutely nil, it is fair to say that rarely has so much effort, so much scurrying around the globe, so many words on the record, and so many resolutions accomplished so little in what otherwise has been a time of profound change.

Whether that is progress or not depends on one's perspective. Since I believe that a fundamental restructuring of the international system along the lines advocated in the new international economic order would be detrimental to both the developed and the developing countries, I also believe that the developed countries have pursued the right policies in resisting the major structural changes advocated by the south.

U.S. POLICY PRIORITIES FOR THE 1980's

Looking now to the 1980's the primary objective of U.S. international economic policy during the early 1980's should be to strengthen the existing system in the following fundamental way:

One, the growth in trade protectionism at home and abroad—in developing as well as developed countries—should be resisted and where possible reversed. We cannot expect to build positive economic and political relations with developing countries, nor expect those countries to become part of the system, if we in the United States continue to maintain existing trade barriers and erect new ones. At the same time, we should not be afraid to pressure other countries, including the developing countries, to remove their trade restrictions and to reduce their export subsidies.

Two, much greater attention needs to be focused on strengthening the International Monetary Fund's ability to act as a lender of last resort. The IMF plays a vital role in the international financial system in that it stands ready to provide resources to a country facing serious balance-of-payments financing problems. Many countries are critical of the Fund because they must implement domestic adjustment measures to qualify, but the fate of such countries would even be worse if IMF funds were not available. More importantly, especially from the point of view of developing countries, commercial banks would make fewer funds available to the advanced developing countries and would charge them much higher interest rates if the banks were not confident of the IMF's ability to step in and provide support in a crisis situation. Attempts by

¹ Many of these issues were examined in detail at a conference held by the American Enterprise Institute and published in the proceedings called "Challenges to a Liberal International Economic Order," edited by Ryan C. Amacher, Gottfried Haberler, and Thomas D. Willett and published by the American Enterprise Institute, 1979.

developing countries to make the IMF lending more automatic and less conditional would turn the Fund into a development bank and reduce its credibility as a lender of last resort.

Three, one of the most serious international economic issues confronting the U.S. Government and one that is of special interest to the developing countries, involves our role in the development banks, including the World Bank, the Inter-American Development Bank, and the Asian Development Bank. At the beginning of fiscal year 1980 the United States was behind \$1 billion in fulfilling commitments already authorized by the U.S. Congress. Fiscal year 1980 appropriations for the development banks not only have been delayed, thus causing a curtailment in lending by the banks since the beginning of this year, including the Asian Development Bank and the Inter-American Development Bank, but it appears that when approved, the appropriations will be much less than requested. Thus, the U.S. Government may fall further behind in meeting commitments authorized by the Congress.

Under the Carter administration, executive branch commitments unfortunately have been made in support of large capital increases for the development banks, including a \$40 billion increase for the World Bank on which the U.S. portion would amount to almost \$10 billion. That amount will need to be authorized and appropriated by the Congress to fulfill the executive branch's commitment, or the role of the United States in that institution will be significantly diminished. Unless the current mood of the Congress changes, the latter is likely to happen. Such a development would not only weaken the U.S. role in building on the current international economic system, but it would fuel the rhetoric of the most extreme advocates of the new international economic order.

Finally, as I have already indicated, the single most significant contribution that the United States could make to the growth and stability of the international economic system would be more stable domestic economic policies.

Thank you very much.

Mr. BINGHAM. Thank you, Mr. Erb.

INTERNATIONAL MONETARY FUND

I would like to address first the subject of the IMF. All of you touch on that, and it is very much in the news these days in connection with the situation in Jamaica.

I am puzzled as to how the IMF can substantially change its requirements for currency support and still maintain its role as a stabilizer of currency. Surely, the IMF does not want to become a supplier of capital, or a method for resource distribution. And yet, if it adopts policies that, let us say, are not conducive to a country's meeting its obligations, where does it end up?

Take the case of Jamaica. Jamaica said it was not going to follow the IMF recommendations any longer and is now in a state of real crisis. But in the long run, would the situation be any better if the IMF said, "Well, go ahead and do what you like, we will still support you."

Mr. SEWELL. Jamaica is a situation which I have not followed very closely, and Dick may know better than I do about the exact details.

Let me respond to the more general questions you raised first. I do not think the IMF should become a development agency, but I think it has to take account of the development prospects of both its rich and poor members because, after all, there are rich countries, industrial countries, that are in balance-of-payments difficulties. First of all, in the most direct sense, it is a matter of the Fund's resources which in terms of debt outstanding and in terms of currency transactions are really quite small—even though it happens to be quite liquid at the moment. One should look out over the 1980's to how you judiciously expand the resources available to take account of a growing world economy with many more actors in it.

Second, there is a need in the short run to deal with the surpluses of those surplus oil producers, which will be \$120 billion in 1980 and will grow beyond that; how you recycle those funds, either through the IMF or through a buttressed private system becomes terribly important. I gather that is what they are exploring.

Third, on the issue of conditionality. I do not think the IMF should give a blank check to any country in balance-of-payments difficulty. I think that they should reconsider—as I gather they are—the criteria they use in two regards, one of which is that the traditional time frame, under their past criteria for making adjustments, of 1 or 2 years is very difficult when it is a question of internal politics within the country. Someone pointed out at a meeting I was at recently that the multifiber agreement; that is, the restrictions on textile imports in the north, was put in under the grounds that it would give the north time to adjust. Of course, it was put in in 1962 and we are still in the process of adjusting. One or two years is a very short time frame for adjustment when it involves cutting back governmental expenditures—as I do not have to tell any Congressman.

Fourth, there is the question of individual circumstances, and that gets much more difficult because it is a judgmental matter, and here is where opinions differ about Jamaica. For a country that mismanages its own economy, then it is in its own soup; but for a country that does everything right—according to the normal IMF criteria—and is suddenly faced with paying twice as much for a barrel of oil or getting half as much for a pound of coffee—then it seems to me you have two quite different situations. Thus, where external conditions beyond the control of any one country put it into great difficulty, there must be a mechanism of changing conditions of adjustment, at least in terms of time. An assessment on whether they are internal or external causes of difficulty seems to me particularly crucial.

Mr. ERB. I agree with you that we have to be careful about extending the IMF lending efforts too broadly. If it were to become a development-type institution it would weaken its ability to serve as a lender of last resort. In that case I believe there would be a reduction in commercial bank lending to many developing countries, as well as some developed countries.

When a country's economic situation is severe and where the potential for improving that economic situation depends on 4 or 5 years of domestic changes, then it might be better to rely on broader program financing under the World Bank. I agree with

John Sewell's earlier statement that we need to broaden the balance-of-payments lending capability of the World Bank.

Beyond that, country situations arise—and I think Jamaica fits into this category—when the leadership is not able to develop an effective domestic economic program. Thus, without a change in leadership, a longer term program of assistance from the World Bank would be of little economic use. The decision to support such a country is mainly a political decision. Do we want, for political reasons, to continue to support the leaders of the government, irrespective of its domestic economic policies and its balance-of-payments cost? Governments make that decision in many cases. I believe, for example, the assistance to Turkey fits into that category. But then, that is a different kind of assistance from what was implied in your question.

Mr. BINGHAM. Mr. Seifman.

Mr. SEIFMAN. I was going to say that the reasons for the difficulties of the LDC's are varied and a number of temporary adjustment facilities have been established to deal with such problems as energy created, balance-of-payment deficits. In the IMF Hamburg meeting there was discussion about extending, to 5 to 7 years, the adjustment period for LDC repayment. IMF conditions for loans in cases like Peru and Jamaica were viewed as creating some of the social and political problems. The IMF suffered the consequences, in terms of the LDC's looking upon it as an institution that it could not trust, or expect to be appreciative or sensitive to their problems.

I agree, however, that it should not become essentially a development agency.

EQUALITY BETWEEN DEVELOPED AND DEVELOPING WORLDS

Mr. BINGHAM. Mr. Erb stated that he would define the issue in the north-south dialog as being essentially between the existing system which emphasizes growth and rational utilization of resources on the one hand, and a new system based on equality on the other hand.

I would like to ask Mr. Sewell and Mr. Seifman how they react to that characterization of the fundamental issue.

Mr. SEWELL. I think I draw a difference between Dick and myself here, without wanting to defend to my last drop of blood all of the proposals of the new international economic order. I do think some of them are unrealistic and some of them do not reflect the fact that decisions on issues are essentially made in the private sector in the north, rather than the public sector—transfer of technology, which is largely in private hands in this country is a good example of that. However, it seems to me that what you have in north-south relations is the kind of "sea change" we have seen in other areas, whether it is domestically in groups like labor movements, the women's movement or minorities in this country, or whether it is internationally, such as what we witnessed at the end of the 19th and beginning of the 20th century when we saw the emergence of Japan and Germany as major powers. The question is whether the international system accommodates to a whole set of major new actors who as a group are now very important.

In my view at least the impetus behind the NIEO is really quite a reformist set of proposals. In effect, you have a group of countries who now want into the system, who want the north, in many areas, to pay heed to their own rhetoric in terms of liberalizing markets, making transfers more equitable, and so on and so forth. I think there is a difference here between equity and equality. Most of the rational part of the south would be the first to admit that there is not going to be true equality in the sense that the United States and Kenya are going to be equal; but they want greater equity out of the system, that is, a fairer shake. They have a strong emphasis, by the way, on growth. One only has to look at any of the pronouncements of the other document that would be considered at the special session, that is the development strategy for the third development decade, to realize that growth is given a very high priority—both growth of manufacturing capacity and growth of agricultural production and trade.

I would see this as something, essentially, in the long-term interest of the north as well as the south. We need a new international economic order as much as they do, but we have not been able to define quite what it is.

Mr. BINGHAM. Mr. Seifman, do you want to comment, and then Mr. Erb can respond.

Mr. SEIFMAN. I believe that both the south and the north have a vested interest in growth and that the accommodation of newcomers into the system is very important to both.

I read recently where the Congress is considering removing the benefits of the generalized system of preferences from the major advanced developing countries; that is, Mexico, Brazil, and the four Asian powerhouses—Taiwan, Singapore, Hong Kong, and Korea. It seems to me that the global system can be designed to work for both developed and developing countries. If you do have growth and if you find ways to allow new entrants to gain, not necessarily equality, but certainly a reasonable share of the activity, then we can have a prospering global economy from both the north and the south's viewpoint.

Mr. BINGHAM. Can you seriously argue that the new international economic order focuses on principles that call for an equal distribution of economic resources and political power?

Mr. ERB. Yes. I think those principles basically underlie the new international economic order proposals—if one looks at the declarations, those are used as the starting points. That is what they want to accomplish.

Mr. BINGHAM. Is that not just rhetoric? I mean, surely they are not serious about that. They do not expect to achieve equality between the developing and the developed world.

Mr. ERB. No; but when economic and political equality become the primary goal, then the emphasis is focused on proposals and actions that would bring about a greater transfer of power and resources. Thus, the emphasis, for example, on proposals for larger assistance flows which are automatic in nature. Among these are proposals for the taxation of trade.

If one were to go down the long list of items that are often included under the heading of the new international economic order, there are many, however, that are consistent with the prin-

principles underlying the existing system. In such cases, the existing system ought to adopt them. The existing system has been very flexible and open over time. We do not have an economic system of developed countries with developing countries on the outside. It is in the context of an open world system that their opportunities for growth are the greatest, not in a world preoccupied with resource transfers.

GLOBAL ECONOMIC NEGOTIATIONS

Mr. BINGHAM. One of you mentioned these global economic negotiations. Can you review for the record the history of that?

Mr. SEIFMAN. In 1977, the U.N. General Assembly created what is called the Committee of the Whole, or the COW. It was to review progress on north-south issues. As it worked its way, it found that what was needed, beyond simple discussion of north-south issues, was a series of global economic negotiations on these issues. They would not be discussions, but negotiations. It the 34th U.N. General Assembly (1979), it was agreed by the United States and 151 other countries that the Committee of the Whole, the COW, would be responsible for preparing an agenda for the special session which takes place in the early fall of 1980. That agenda would then be considered by the General Assembly; that is, by all governments represented, and, if approved, preparations for negotiations could conceivably start in early 1981. At least five major topics were identified by the developing countries. They are raw materials, development issues, trade, energy, money, and finance.

What has been happening over the course of the last several months is that this COW has been discussing what will be on the agenda, the time frame, and mechanisms. The Europeans and ourselves have proposed an alternative to the LDC "laundry list" of agenda items. It is referred to as the "thematic" approach. You look at food, at energy, at external balances. If you talk about food, you do not just talk about food security, food reserves; you talk about food aid and food technical assistance, agricultural assistance. It is cross-cutting; it treats a number of different issues; it is an attempt to find a pragmatic way to address what has become very entrenched positions on very specific requests by one side or the other.

These negotiations are still in the formulative stage as to substantive items; the time frame; whether it will be a centralized or decentralized process; whether a ministerial conference is required. These are the current aspects of the negotiations under consideration, as I understand it.

Mr. BINGHAM. Has the United States, to your knowledge, agreed to that program? That is, have we agreed to enter into negotiations?

Mr. SEIFMAN. To a certain degree, yes. The United States, by agreeing to having the resolution adopted by consensus indicated its intention to negotiate in good faith if an agenda is agreed on. Admittedly, the agenda is still to be defined. The United States has committed itself to work diligently to find a formula, and I think it would be looked upon as our turning back on the nitty-gritty issues should we not do so. Countries are discussing the commitment such as time frame and where in the U.N. system—a centralized body or the specialized agencies—should the specific elements of

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this series of negotiations be placed. To the degree that the language of a resolution of the U.N. reflects a commitment of the U.S. Government, we have committed ourselves to enter into the negotiations.

Mr. SEWELL. May I add a word, Congressman, to that? It is interesting as background how we got there, because when the Committee of the Whole was originally set up to continue the work of the Council of International Economic Cooperation, it quickly deteriorated because the main issue of interest to the north—that is, energy—was off the agenda.

My best assessment of what happened was that over the course of 1979 first at UNCTAD, UNCTAD V at Manila, and then particularly at the Conference of the Non-Aligned Countries in Cuba, which got a lot of publicity in this country on the political level, the pressures that were being felt by the non-oil-producing developing countries in the price of energy got very strong. They were making it very clear to the oil producers that they needed relief, help, assistance, what have you. That moved the oil producers to agree to a new set of negotiations of which energy was part for the first time. The non-oil-producers were perfectly willing to put energy on it, but OPEC was not. That, in turn, was enough to lure the industrial countries back to serious discussions on what might be on the agenda, how you might structure it, and so on and so forth, because energy is back on, which is clearly of crucial interest to us.

I think Dick's assessment is right; we have agreed to the list of topics that we talk about; we have not agreed to the format, timetable, and so on and so forth. They are discussing it now at New York as the Committee of the Whole is meeting.

EMERGENCE OF OPEC

Mr. BINGHAM. That raises my next point. It seems to me much of the discussion is carried on in the terms that were used a decade or more ago, before we had the energy crisis. Today, some people say: What is all this talk about establishing a new international economic order, it has already arrived. Indeed, the international economic order is so different from what it was a decade ago that we can easily say that.

Many of the complaints that were made by some of the early critics of the international economic order were aimed at the kind of thing that the OPEC countries have been doing—maintaining artificially high prices, and so on. So, it does seem to me that much of the discussion of whether there ought to be a new international economic order, particularly on the part of the developing countries, has tended to obscure that fact. Do you agree with that?

Mr. SEIFMAN. This is why I think that the U.N. special session, which is sort of described as an assessment of progress on the new international economic order, is less significant than the negotiations. The world has radically changed in economic terms since the NIEO series of resolutions were first passed in the sixth special session, and we are in a very different position.

This is partly why I believe that new linkages between issues, different approaches rather than the conventional set pieces that have become very deeply ingrained during the last 6 years, will be

needed. It seems to me that there are new possibilities with the change of the energy relationships, with the graduation of certain LDC's, with growing LDC recognition of the need to get the Soviet and Eastern European bloc countries involved in the negotiations, and not merely repeating the stale north-south dialog. I think it is very important that, as we look at negotiations, beyond the rhetoric, we look for relationships between issues which were not connected with one another before.

Mr. BINGHAM. Mr. Erb, do you want to comment?

Mr. ERB. I do not think the emergence of OPEC significantly changed the system. It was in fact a small group of countries—not even the totality of OPEC countries, but rather the OPEC countries of the Arabian Peninsula, and mainly Saudi Arabia—who took advantage of having enormous market power to influence the price of oil. I do not think there is anything in the way of an international agreement as such that could reduce that market power unless consumer countries take the domestic steps to reduce their energy requirements and to increase production.

I do not think there is anything that could be done in an international economic context that would protect the energy markets from the kind of shock that took place in 1979. The price increases that took place would have shattered any kind of agreement that would have been reached in, say, 1976 or 1977-78, because it was a shock that came from an internal political development in one of the OPEC countries. All of the other OPEC countries responded to it by opening up their oil valves; in effect the price of oil was determined by world demand and supply. There was a large increase in world oil demand because of oil stock building in anticipation of continued political turmoil in Iran and concerns about political instability in other OPEC countries.

Mr. BINGHAM. Mr. Sewell had some suggestions along those lines, and so did Professor Fishlow of Yale the other day, about proposed ways to try to prevent any skyrocketing of energy prices by giving the OPEC countries some kind of assurance that their interests would be protected—for example, some sort of indexing, with a view to trying to recycle much of the oil revenues to the less fortunate developing countries. There are ideas being discussed for meeting the problems of the energy crisis on some sort of an institutional basis.

Mr. SEWELL. I think the OPEC example is an interesting one in two regards. I mean, here is where both the psychology and the politics intersect with the economics of the new international economic order.

One of the dilemmas that anybody interested in this set of issues faces in the 1980's is: On the one hand, you can demonstrate quite clearly that the Third World really does not exist. I mean, they are a group of countries that are diverse and are becoming more diverse. There is very little relationship between Mexico's interests and needs and those of Somalia. Both are equally important, but they are quite different. On the other hand, as anybody who has dealt with the Third World knows, there is a psychological identity based on the past, which—justified or not—is real. The continued solidarity, public solidarity of the non-oil-producing LDC's and the oil producers is quite striking, and that is political, emotional, and

psychological, and important politically in a bargaining sense. As long as they are not going to get anything out of the north, they might as well try and use whatever leverage they can get OPEC to exert to force the issue. That is a bargaining tactic that is not unknown in all sorts of different circumstances, domestically and internationally.

I do disagree with Dick here. I think that it is worth exploring—and I underline “exploring” because no one is quite sure it is possible—some sort of energy agreement between the producers and consumers. The proposals of the Brandt Commission are as good as any others. As that Commission included members from all industrial countries, and OPEC, and the LDC's, I assume they broke it out quite carefully in the context, by the way, of not just an energy agreement but a series of other north-south agreements.

There were four elements to it, one of which was an agreement on levels of production to avoid arbitrary reductions and special measures to help the LDC's; specific agreements on conservation targets at price levels that were set high enough to encourage production with some sort of eventual price indexing, and major investments in the exploration of additional conventional energy and renewable energy technologies. The last, of course, is terribly important to those OPEC countries who worry about running out of oil, as they will in the next two or three decades.

Now, whether this is politically possible on either side—I would not want to run for office on indexed oil prices between now and November in this country—it does seem to me that it is imperative to explore it much more closely than we have up to now. There are several objections to it, one of which is, you could always get another Iran. That is, someone will drop out of the stream and cause a crisis situation. That is true, but even if you have 3 to 5 years of stability you would be much better off.

One of the problems between 1974 and 1979 was that the real price of oil dropped. Compared to inflation in the world in general, the price of oil had barely increased between 1974 and 1979. They took advantage of a market situation to up it. If you had regular price increases over that period of time, you might have gotten to the same level, but not with the same shocks to everybody's economy in both the poor oil-consumer nations and the rich oil-consumer nations.

You might want to ask the administration witnesses because I know they have been thinking about whether it really does deserve serious exploration, even with the full realization it may not be possible.

BRANDT COMMISSION REPORT

Mr. BINGHAM. You mentioned the Brandt Commission report. Are there any other ideas from that on which you would like to comment, or any general reactions to the report?

Mr. ERB. I read parts of it, including the energy proposals. I am not so sure that the energy-related proposals in the Brandt Commission report really were brokered as Mr. Sewell suggested. Mr. Abdulatif al-Hamed, who was a member of the Brandt Commission and head of the Kuwait Fund, presumably supported the energy proposals for cooperation. But I have seen statements by Sheikh al-Khalifa who is the Minister of Petroleum of Kuwait which ex-

pressed skepticism about price indexing—not out of fear of losing power to set the price of oil—but because in his judgment the oil markets are very complicated and there are many shocks that can occur over time that make it very difficult to devise an indexing system that could be sustained over time.

Mr. BINGHAM. Mr. Seifman.

Mr. SEIFMAN. Just two comments, sir. One is that I believe the Brandt Commission report talked about a north-south summit meeting. I think that it makes a lot of sense to consider linking summits that function already; for example, using the Venice summit to consider the U.N. global economic negotiations, and then approaching, in some fashion, the OPEC summit, the OAU, the Andean Pact nations, ASEAN, other equivalent summits to link together, at very high political levels, the various players.

Mr. BINGHAM. Mr. Sewell.

Mr. SEWELL. Let me just say that I would not want to comment on all of the Brandt Commission recommendations. As we counted them, there are approximately 98. I, myself, think it is the best summation of the current state of knowledge that we have, dealt with by a group of people who are not deeply involved with all of these issues, as some of us are, and who looked at it from a quite fresh perspective, if you realize that the American members were Katharine Graham, the head of the Washington Post, and Peter Peterson, the former Secretary of Commerce and now head of Kuhn Loeb. I think it is a document that deserves a great deal of scrutiny because it is comprehensive both in its long-range aspect and in its short-run program. It would be very interesting to see a discussion on the agenda for the Venice Industrial Summit of that short-term program which includes resource transfers, energy, food, and some beginning of restructuring.

I think that it is a shame that in this country it has tended to be obscured. I learned yesterday that in Great Britain already 40,000 copies have been sold, and in this country about 10,000.

But it is the kind of document which provides a very useful basis for discussion of these issues as we move ahead.

Mr. BINGHAM. I agree with that. I find the amount of agreement particularly remarkable, given the range of views represented on that Commission.

GOALS OF THE NORTH

If we could really have a productive round of global negotiations, what would be the trade-offs that we would be trying to make? In other words, what does the south have that the north wants and might not get in the absence of negotiations?

Mr. SEWELL. Let me respond. Clearly, the answer is energy. You can leave aside whether you believe an energy deal is possible or not. There is a need for vastly expanded investment, both in finding and developing new conventional sources of energy—coal, hydropower and so on and so forth, and for the research and development of the alternative energy technologies. The obvious marriage here is of northern technology and OPEC money. That is a marriage, it seems to me, that leaving the oil deal aside, would be a very useful one to explore.

In the short run, of course, the south really has no direct lever that they can harm us with. It depends whether you are defining

your time horizon, however, as the next few years or as the next decade and beyond. I would argue one should talk now about the next decade and beyond, out to the end of the century.

Over that period of time, whether the developing countries grow and prosper or do not grow and prosper is going to have a great impact on what happens in the industrial economies—both because we are much more interdependent and the interactions are much greater, and because these countries are going to play a much greater role. If you, therefore, worry about where you look for the stimulus for economic growth in the north over the next two decades, it is going to come out of the developing countries or it is not going to come from anywhere. Therefore, what happens is terribly important to us in that longer run calculus.

Mr. SEIFMAN. I would certainly agree that energy is one of the things we want. I think we also would want markets, markets not only for our goods but for the service sector. We are a growing service economy. We have a great deal of talent, education, advanced technology to serve. The south is a very attractive place to provide that if it could be designed and used for their benefit as well. We have a lot to offer in that regard.

I think we continue, as was pointed out in John's statement earlier, to need the mineral resources of the south which in certain areas we are without entirely and must rely on foreign sources to provide us. I think political stability is something from which we benefit from the south.

I would make one further, probably rash statement, and that is that we may need the human resources of the south. We may need the benefits of not only southern knowledge and technology to solve some of our own problems, but we may need the people themselves to do things. Right now, we do not see a problem because unemployment is growing, but there are demographic projections of what is going to happen to the United States that suggest that without a larger youth base, we will have problems.

Mr. BINGHAM. Mr. Erb.

POLITICAL COSTS

Mr. ERB. Having been involved in the CIEC negotiations I am very skeptical that much can be accomplished in a global negotiation. In fact, I would say that there are potentially great costs, including political costs, for the United States if it enters a major global negotiation. Such a step would raise expectations among other nations that I do not think any U.S. Government can fulfill unless it first addresses the question of what the American public will support in the way of concessions to the developing countries. It is going to be very difficult for the U.S. Government even to meet its commitments under the current system, let alone enter into a new global negotiation that would no doubt involve even greater commitments for the American public. Unless there is such a base of public support, the United States will risk a major political setback if it enters into negotiations and is not able to meet the demands of the developing countries.

Mr. BINGHAM. Let me pursue that. The negotiations which arose from UNCTAD IV have not produced any startling new agreement. I do not think they damaged the United States politically; do you?

Mr. ERB. To date the current administration has been more positive to the idea of a commodity fund than a previous administration; but yet, as a practical matter, not much has been done in the way of setting up a large fund or negotiating agreements. I think the main reason for that is, the current administration is sensitive to the likely domestic political position from both consumers and industry to commodity agreements and to the appropriations which would be necessary to support such agreements.

Mr. BINGHAM. Right. But my point was that process has not cost us anything politically.

Mr. ERB. I think it has, in the sense that the U.S. Government has not really been that forthcoming although it created the expectation that it would. I think the political cost will come in the next 2 or 3 years when that becomes more obvious to other countries.

The question raised earlier is whether we should enter into a global negotiation where commodity issues, for example, would be discussed in the context of a larger set of relations including trade arrangements or resource transfers. I question whether we should address such issues in the context of a larger global negotiation.

ROLE OF SOVIET BLOC NATIONS

Mr. BINGHAM. Let me ask any one of you who cares to comment, where do the Soviet Union and the East European countries fit into all this?

Mr. ERB. In the economic world, I do not think that the south has that much to gain from trying to bring the Soviet Union or the larger Soviet bloc into the negotiations. I do not think there is that much that the Soviets can offer in return to the south countries. I believe that the major question in some of the south countries relates to security. What are Soviet interests with respect to oil or with respect to minerals; will they seek access to resources through military or commercial means? Commercial purchases would raise prices but not pose the kind of problems that would occur if they tried to gain access through subversion in countries, whether it be Africa, south America, or in the Middle East, or through direct military action. I think the concern is more from a security point of view than from an economic point of view.

Mr. BINGHAM. But the south seems not to criticize the Communist powers for the kinds of things for which the south criticizes the West.

Mr. SEWELL. Let me respond because I am glad you raised that question. I think it is one of the \$64 questions of the 1980's in a variety of ways. I think they are putting pressure on the Russians—particularly on the Russians and on Eastern Europe, China is a different case—for more aid. If one looks at the declarations, although we tend to ignore them because the rest of them deal with the international economic system which we and the other industrial countries dominate, there is a sort of rising sense increasing in intensity over time that we expect more forthcoming attitudes out of the Eastern European countries and out of the Socialist bloc.

Now, the Russians, of course, say that, one, they are not responsible for colonialism; two, they are a poor, developing country, too.

I would guess that pressure is going to build up over the period of time.

But it gets more complicated than that. First of all, when one looks at a series of international systems and whether they are going to be important to us—and to the south—in the 1980's, the Russians loom large in some of them, the Russians and Eastern Europe. When one looks at the food situation, whether Russia can produce more food, comes in and out of the market, has an obvious bearing whether you do anything about international weather forecasting and control; all of these are going to demand Russian participation. If you do not get it, the system is going to be that much weaker.

Eastern Europe is now one of the important debtors to the private banks, thanks to the lending over the last couple of years. Whether they repay those debts and how they interact with that system becomes very important.

So, I think that figuring out quite how they fit together is going to be a very interesting question.

Now, my impression—and I am far from a Russian expert, Dick may know more than I do—is that there is a very ambivalent attitude on the part of the Russians at the moment. They feel this because they are supposed to be the intellectual model for the future and no one thinks of Russian state socialism as a model now; they are getting under increasing pressure and they are beginning to see that their own interest in these international systems becomes larger and larger.

The other aspect, of course, with the United States is China and the role that China plays. There are people, I gather, who are perfectly happy to play the China card vis-a-vis the Russians without thinking about its impact on north-south relations. China has now joined the IMF. China, I gather, is talking about joining the World Bank. Were they to join the bank and exercise a claim, on the fair share of the resources of the International Development Association on a per capita basis, they would break the Bank because India is now the largest claimant and China, certainly on equity grounds, has an equal claim to money that is not there at the moment.

But if we want China to continue its opening to the West, to take American investment and trade, they are going to have to sell things to us. Of course, what they are going to sell are those things that we refuse to take from the other LDC's, textiles, machinery, electrical goods, and so on and so forth. The Third World is very worried that they are now faced with the emergence of a major competitor and a very active and in many ways very efficient one.

I do not think we have really come to grips with the fact that we are going to have to think about taking lots more Chinese goods if they are going to interact with the world economy in the way we want them to. That, of course, has further ramifications for relationships with the Russians.

Mr. SEIFMAN. I would agree that the Russians and the Eastern Europeans for a long time have had a relatively easy copout. The Russians, or whoever is the spokesman for the East European group, usually says something like "We were never colonialists, we

did not design the economic system, it is their—the West's—problem," and walk away.

But I think that John is right about changes in the future. Also, there are reasons why they so far have not been as serious economic players in the developing world as they may come to be. Their currency is nonconvertible; their industry people are not really activists in terms of trying to develop markets abroad to the degree that we and others are; their trading relationships outside of the bloc is much smaller. So, they really have had no significant interaction. I think they will become increasingly active on such issues. The United Nations Association's Soviet parallel studies economic program director, Toby Gati, has done a paper on the involvement of the Soviet-Eastern bloc in U.N. issues and what they might do. The entry of the Chinese as an active multilateral player has changed and will change the perspectives of the Soviets somewhat.

Still, I feel that no matter what the pressures are, unless the pressures really come from the LDC's, what the Soviet bloc does will not change very much.

There was an effort, I think, to try and put some Western impetus along these lines in the 1979 Tokyo Summit Declaration. It was suggested by the West that developing countries look more closely at what the Soviets had done and should be doing in concessional foreign assistance.

Mr. BINGHAM. Well, gentlemen, thank you very much. I am sorry we did not have more members here for this very interesting discussion. That would perhaps indicate the truth of what you said at the outset, Mr. Sewell, that as important as these issues are, they tend to get pushed aside by more immediate concerns. In any event, I want to thank you very much for your testimony and your patience here this afternoon.

The subcommittee stands adjourned.

[Whereupon, at 4:30 p.m., the subcommittees adjourned, to reconvene at the call of the Chair.]

STATEMENT OF DR. DEAN R. HENRIKSEN, DIRECTOR, INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

Testimony before the Senate Committee on Foreign Relations

Washington, D.C., May 1, 1980

Chairman, and Members of the Committee:

I am pleased to have this opportunity to

testify before you today, and I am grateful to you for the

invitation to appear before the Committee on this important

subject. I am also grateful to you for the opportunity to

discuss with you the progress of the Agency's work in the

past year, and to discuss the challenges and opportunities

that lie ahead. I am also grateful to you for the opportunity

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NORTH-SOUTH DIALOG: PROGRESS AND PROSPECTS

THURSDAY, MAY 15, 1980

HOUSE OF REPRESENTATIVES, COMMITTEE ON FOREIGN AFFAIRS, SUBCOMMITTEES ON INTERNATIONAL ECONOMIC POLICY AND TRADE AND ON INTERNATIONAL ORGANIZATIONS,

Washington, D.C.

The subcommittees met at 2:10 p.m. in room 2200, Rayburn House Office Building. Hon. Jonathan B. Bingham (chairman of the Subcommittee on International Economic Policy and Trade) presiding.

Mr. BINGHAM. The meeting of the Subcommittee on International Economic Policy and Trade and the Subcommittee on International Organizations will be in order.

This afternoon these two subcommittees hold a third joint hearing on the north-south dialog and on our Government's preparations for this summer's U.N. Special Session. In our first two hearings we heard numerous recommendations for U.S. policy, and today we look forward to hearing about that policy from those who are involved in making it.

We are happy to have with us today Hon. Thomas Ehrlich, Director of the International Development Cooperation Agency. Our other witnesses are detained either at other meetings or on aircraft. I hope they will be with us later. We will hear Mr. Ehrlich now.

STATEMENT OF HON. THOMAS EHRLICH, DIRECTOR, INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

Mr. EHRLICH. Thank you, Mr. Chairman.

I am grateful and I very much appreciate this opportunity to discuss with you the north-south dialog and the U.S. participation in the forthcoming round of the global negotiations, and particularly I appreciate your own strong interest in those negotiations.

Naturally, I consider this subject from the perspective of my agency's mandate, which is to make more coherent our economic policies and programs affecting developing nations and to improve the effectiveness of U.S. foreign development activities. My colleagues' statements focus on the north-south dialog from the perspectives of the Departments of State and Treasury, and the U.S. mission to the United Nations.

The last decade, as you well know, has been marked by periods of tension between developing countries of the south and industrial nations of the north. At times each group has been deeply suspicious of the other's motives and has expressed widely differing

perceptions of our global needs and global priorities. That pattern may well persist into the future. Relations between developed and developing countries may well be periodically abrasive far into the future, particularly in multilateral settings. But that reality—and it is a reality—in no way diminishes the need for governments of all nations to meet on common problems of global concern.

Over the course of the last decade there has been significant progress of mutual benefit to both developed and developing countries in the areas of trade, monetary and financial affairs, commodities, food and agricultural development, as Mr. Bergsten's statement analyzes in some detail.

In the decade ahead, it will remain very much in our interest to continue to work with developing countries on problems of common concern. Global negotiations provide one among many occasions for partnership. We must take them seriously, and we must be perceived as doing so.

Last December, when this country agreed with other U.N. member states to prepare a new round of global negotiations, we said they could make useful contributions to resolving international economic problems if they focused on a limited number of specific issues. We also said the negotiations ought to give momentum to ongoing efforts in other international organizations. From a development perspective, the need to set priorities, and not to disrupt or to duplicate ongoing activities, is still a key requirement.

We are now working with other countries to establish the agenda and procedures for global negotiations. That may be a very difficult and trying job, as Richard Cooper and Joan Spero will describe. The United Nations is a highly visible, political forum. Discussions take place among more than 150 countries with widely disparate needs, disparate capabilities, disparate interests.

Before discussing the issues that those and other aspects of our relations with developing countries might usefully address in the year or two ahead, I want to underscore deep concern about one legislative problem. If not corrected, it could cripple our efforts to strengthen ties with nations of the south as well as bring to a halt vital support for development throughout the Third World.

Several weeks ago the House refused to approve the conference report on legislation to authorize our participation in several of the regional multilateral development banks. More will be said this afternoon by Fred Bergsten about the need for this bill, S. 662, and about the consequences of failure to enact it. I emphasize at the outset, however, its importance for our development policy concerns, for our continued leadership in north-south relations, and for the credibility of our position in preparation for the global negotiations. We have stressed that on monetary and financial issues the fora for negotiations are the IMF and the multilateral development banks.

My comments this afternoon will emphasize four main points:

One, it is in our interest to focus serious attention on the problems of development and on economic negotiations with developing countries; and it is in our interest to be perceived as serious.

Two, among the priority development issues for the 1980's are food, energy, population, and economic adjustment. These concerns

are important to us as well as to developing countries. And they correspond to our priorities in development assistance.

Three, those four issues are substantively interrelated; prospects for mutually acceptable progress on each of them would be enhanced by attention to the interrelations.

Four, global negotiations can contribute to progress on these issues. Those negotiations are not the only context in which we are discussing food, energy, population, and economic adjustment. We are also addressing these and other concerns in negotiations with developing countries on a new international development strategy and elsewhere as well. But the global negotiations do offer a prime opportunity for progress. It would be misleading to be enormously optimistic; a significant dose of healthy skepticism is essential about any prospective international undertaking, particularly when the agenda is, quite literally, global. But it would be equally wrong to be only pessimistic, for we believe that real gains for all nations are possible through the global negotiations.

U.S. INTERESTS IN THE NORTH-SOUTH DIALOG

Against that background, I begin with the profound importance to the United States of helping to promote development and working with developing countries to solve problems of mutual concern.

Earlier this year, a distinguished international commission issued its report on north-south relations. It was headed by former West German Chancellor Willy Brandt and included leaders from developed and developing countries, including two eminent Americans. Later this year IDCA will report to the President on the results of an interagency review of the commission's recommendations. The central theme of the Brandt Commission report is the common interest of nations within both the north and the south in meeting the challenge of development and in responding to specific global economic problems. For us, this common interest relates not only to the humanitarian concerns of our people, but also to our political, economic, and strategic future.

POLITICAL INTERESTS

We have important political interests in helping to promote development among Third World countries. And we have political interests in maintaining an international economic order in ways that benefit all nations.

We seek a world at peace: In which each nation honors the others' national independence; in which the people of each nation participate in its political process; in which each nation respects the human rights of its citizens; in which each nation strives to meet equitably the economic aspirations of its people.

Development is often destabilizing. Pressures to redistribute economic and political power can be unsettling. But the resulting changes are not as threatening to peace and international stability as the dangers of pent-up rage from injustice and hunger. The question is not whether change from development should occur, but whether change will be channeled in constructive directions. Development, with our help, is the best hope for a world in which human and political liberties flourish. The road to this goal may be

rough, but our interests are clearly served by conducting relations in a way that promotes development.

ECONOMIC INTEREST

The growing economic basis for our interests in developing countries is also striking:

More than a third of U.S. exports are shipped to developing nations.

The 800,000 American jobs in manufacturing alone depend on exports to developing countries.

We export 50 percent of our cotton, 65 percent of our wheat, and 70 percent of our rice to the developing world.

To a growing extent we must rely on developing countries for vital materials. For example, the United States imports 100 percent of our tin requirements, 90 percent of the bauxite used for aluminum, and all of our natural rubber needs from developing countries. Most important, 41 percent of the petroleum we use comes from developing countries and roughly half of that from nations outside the Middle East.

And as of 1978, American firms have invested over \$40 billion in developing countries, nearly a quarter of our total foreign direct investment.

These are a few examples of our deepening economic involvement with the Third World.

STRATEGIC INTEREST

The United States has another critical stake in relations with the countries of the south. Developing nations are vital to the resolution of a wide range of global problems that concern the American people directly—from the peaceful resolution of disputes in Africa to the protection of our Earth's environment. Wasteful use of the Earth's resources, pollution of the Earth's atmosphere, international terrorism, nuclear proliferation, unchecked arm competition, and the pressures of rapid population growth, all threaten the well-being and safety of the human race. None can be solved without the involvement and cooperation of developing nations.

HUMANITARIAN INTEREST

Finally, overwhelming humanitarian needs require us to work with Third World governments to help poor people in their countries. Almost 1 billion of those people live in absolute poverty. They lack safe drinking water, access to basic health care, and other essentials. Fifteen million children die each year from malnutrition and infection.

Our political, economic, strategic, and humanitarian interests can be served by U.S. support for development and by progress in north-south negotiations. The north-south dialog and development efforts are intricately interrelated, although they are by no means synonymous. Development is one goal of north-south economic negotiations. It is explicitly the focus of concern of negotiations on an international development strategy for the decade of the 1980's.

That strategy, which thus far has been the subject of a good deal of disagreement between developed and developing countries, aims

to set long-range objectives for development cooperation. Goals for actions by developing as well as developed countries are the subject of the negotiations on that strategy. Clearly, there is much we can do to support development that is outside that and the other north-south negotiations. There is much the developing countries need to do within their own societies, quite apart from the efforts of other nations to help them.

Similarly, north-south negotiations are about more than promoting development, as Mr. Cooper's statement and Mr. Bergsten's statement will both review in detail. They are about the rules, the principles, the procedures governing international economic relations. Of particular importance, they are about the roles and responsibilities of both developing and developed states in the management of the international economic system. The challenge for all of us, the United States as well as for other countries, is to deal with north-south issues in ways that are conducive to meeting both development concerns and other global economic goals.

For those reasons, neither the United States nor other countries ought to approach the north-south dialog as a discussion, simply of what the rich can give to the poor, but rather as one of several means by which nations can work together to meet global economic problems for their common benefit.

Taking the north-south dialog seriously also means that we cannot begin with unalterable positions. We cannot dictate unilateral solutions, nor can other countries. We are talking about a negotiating process and, as in any negotiation, there must be real give and real take.

We do need to arrive quickly at an agreement with the developing countries on an agenda of priority issues on which both sides are prepared to enter active negotiations. We have urged that problem-solving approach concerning the global negotiations and also in the key international institutions. That approach is the opposite of trying to put every possible demand on an agenda. Sharp focus on key problems is the only way, in my view, that a dialog between north and south has made—and can continue to make—progress on critical problems that affect both prospects for development and the health of the global economy.

KEY ISSUES

The main point I would like to stress this afternoon can be simply stated. Among the most pressing development goals, we believe, for the world community in the 1980's are: Economic adjustment, food, energy and population. Those four issues are important to us as well as to Third World countries. They correspond to our priorities in development assistance. The issues are each substantially interrelated and prospects for mutually acceptable progress on each would be enhanced by attention to the ways in which they interrelate. We believe that the global negotiations—as well as a number of other international efforts—can contribute to substantial progress on those issues.

Let me describe them very briefly, if I can, beginning with the adjustment issue.

ECONOMIC ADJUSTMENT

By adjustment I mean the necessary process within all societies of accommodating the changing world economic conditions, including higher energy costs and the payments imbalances that they engender.

For a good many developing countries the need to adjust to structural imbalances is the major medium-term challenge to achieving sustainable economic development. That challenge entails reallocating investment in developing countries, geared to increasing their exports, reducing their imports of goods they can produce efficiently at home. It means, of particular importance, developing alternative energy resources and making greater strides to achieve food self-sufficiency when that is economically feasible.

Without those necessary changes, those countries will be overwhelmed by financial and political strains. To help promote the necessary changes, suitable steps to facilitate the recycling of payments surpluses are going to be needed. Larger levels of development assistance for the poor countries are also absolutely essential.

The rise in oil prices, as you well know, has led to enormous OPEC surpluses. The oil price increases have also led—directly and indirectly—to sizable increases in current account deficits of Third World countries already much in debt.

Although the situation is manageable in 1980, looking at 1981 and beyond, there is cause for concern and careful attention. Crippling financial difficulties may well arise in some countries, if, as we expect, the real price of oil remains high and there is a significant slowdown of exports from developing countries to developed nations.

Third World nations that import oil will face current account deficits this year of \$50 billion compared to \$14 billion just 3 years ago. The deficits in 1981 are likely to be even larger. More than half of these deficits are concentrated in countries that have borrowed heavily, mostly from private banks. The scale of further commercial bank lending to help these countries in 1981 and beyond is uncertain. For the poorest countries, almost wholly dependent on concessional assistance, prospects for continuing growth and development will be bleak without increased flows of development assistance.

The United States and the other members of the International Monetary Fund and the World Bank are now considering a variety of ways to help developing countries adjust. A crucial factor in providing assistance—a central element of adjustment on a global scale—will be that successful recycling of oil revenues that have accumulated in some of the OPEC countries.

Adjustment on a global scale also requires states to resist the temptation to retreat into protectionism. It is terribly tempting to use trade restrictions to export economic difficulties. But that path, however seemingly helpful in the short run, inevitably invites retaliation and breakdown of the international system in ways we can all remember.

ELIMINATION OF HUNGER

A second problem that the international community must address seriously is the elimination of hunger. Both the President's Hunger Commission and the Brandt Commission urge attention to this problem as a matter of priority. Recent events in Southeast Asia, Somalia, and elsewhere have heightened international awareness of the precarious food situation in many of the poorest developing countries. The number of undernourished people in these countries is continuing to expand. Furthermore, poor people in low income countries are increasingly vulnerable to periods of acute food shortages.

To overcome the fundamental causes of hunger, developing countries need to increase their food production, raise the incomes of their people to enable them to buy food, and to help them develop efficient internal food storage, transportation, and distribution networks. For countries willing to take these necessary steps, there ought to be adequate international assistance available by countries with the financial capacity to provide it.

Further, the international community ought to help to insure that poor countries have the means to meet their food import needs, and that community should seek ways to enhance the stability of the international grain market.

INCREASED ENERGY PRODUCTION

A third common concern is increased energy production in developing countries. World economic prospects depend critically on the ability of all societies to reduce the link between imported oil supplies and economic growth. The problem is particularly acute for non-OPEC developing countries. They are less and less able to bear the financial burdens those imports entail.

Continued economic growth of developing countries will probably mean that their share of the world oil demand will increase up to 25 percent of the total demand over the course of the next decade. That will further strain the world's oil market.

One of the most promising approaches to today's energy problem—in addition to the necessary rigorous conservation efforts—is to increase energy exploration and development within the non-OPEC developing countries. As much as 40 percent of all the oil yet to be found may well be in those countries. And development of renewable energy sources in Third World countries must also be pursued with equal vigor.

POPULATION

Finally, we and others ought to recognize that today's population explosion is as serious and central a problem as are adjustment, food, and energy. Rapid growth in population limits development everywhere. In the poor nations it frustrates the efforts to end the poverty, malnutrition and the degradation that are the lot of a quarter of the world's peoples. In many counties, in Africa particularly, though food production is expanding, population is increasing even faster. The result, of course, is a growing number of starving people and increasing pressures on the world's resources.

We now face the prospect of a population increase in the final quarter century that will equal the entire growth of the world's population in the last 2,000 years. If current trends persist, the world's population of 4.5 billion people will more than double before stabilizing in the 21st century.

Too few developing countries are now paying enough attention to population, and too few industrial nations are providing significant support in this area. Population aid currently accounts for only 2 percent of total development assistance worldwide.

The United States has been the active leader in this field—both in terms of emphasis and in terms of the volume of aid. This country will give some \$195 million this year for family planning assistance, and we are urging other donors to do more. An increasing number of developing countries share our concern. In Thailand, Indonesia and Colombia, for example, much more attention is now given to the population problem than was the case; their declining birth rates testify to the success of their efforts.

A FRAMEWORK

Given the importance of those four issues, how can they best be considered? An analysis shows, I think, that food and energy have several similar characteristics, and those and the other two issues—adjustment and population—are substantively interrelated problems.

In regard to both food and energy, international action is needed to promote security of supply; to promote increased production in developing countries; and to promote the financing required by poor countries to pay for increased production and imports.

The adjustment issue relates to both the demand side and the supply side of the food and energy problems. On a national scale, adjustment in many developing countries includes the production of more food and more energy as part of the adjustment process, but on the global scale is a need to avoid protectionism and for increasing financial flows—or recycling—to developing countries to support their adjustment efforts. If one asks "recycling for what?" one is immediately led back around to the need in many developing countries for increased production and financing imports of food and energy.

Population is a critical companion issue because of the long-term pressures that high birth rates place on critical resources.

Progress on any or all of these issues will benefit every nation. Progress on the issues also calls for action by every nation.

All countries must be prepared to reduce long-term demands on the world's limited resources. That includes making substantial strides in energy conservation. For developing countries it also means making a greater effort to increase agricultural production and to reduce population growth rates.

At the same time, we in the United States ought to recognize that—just as we seek energy security—those who depend on food imports seek food security through increased production and an adequate system of grain reserves, with the necessary storage and the necessary transportation facilities.

OPEC countries, for their part, should recognize their greater official responsibility for recycling the surplus capital that results

from higher oil prices. Since 1973, western countries have assumed most of the financial risk of recycling, largely through the private commercial banks. In the future, the surplus countries should assume more of that risk.

We are now the process of preparing an agenda for the global negotiations with other countries, as my colleagues will explain in some detail. We cannot guarantee the final outcome of those discussions, but the global negotiations do offer a prime opportunity for progress. It would be misleading to be enormously optimistic; a significant dose of healthy skepticism is essential about any prospective international undertaking, particularly when the agenda is, quite literally, a global one.

But, it would be equally wrong to be unduly pessimistic for we believe that real gains for all nations are possible through the global negotiations, and we will make every effort to validate that belief.

Thank you very much, Mr. Chairman.

Mr. BINGHAM. Thank you, Mr. Ehrlich.

We are happy to have before us now the Honorable Richard Cooper, Under Secretary of State for Economic Affairs, and the Honorable Joan Spero, U.S. Ambassador to the U.N. Economic and Social Council.

Would you like to proceed, Dick, and give us your views?

STATEMENT OF HON. RICHARD N. COOPER, UNDER SECRETARY FOR ECONOMIC AFFAIRS, DEPARTMENT OF STATE

Mr. COOPER. Thank you very much, Mr. Chairman.

I appreciate the opportunity to talk with you about the north-south dialog, its importance to the United States, and the directions we see it taking in the months ahead. This subject is particularly timely, as late this summer we will attend the 11th Special Session of the United Nations General Assembly, which will bring together two major themes for the first time—the launching of a round of global negotiations on major international economic issues, including energy, and the formulation of an international development strategy for the eighties.

The north-south dialog can be looked at on two levels. Most generally, it can be defined as the whole range of discussions and negotiations between industrial and developing countries—bilateral, regional, and international. More specifically, however, the dialog can be defined as a discussion in multilateral fora of the international economic system which has evolved since 1945. The developing countries use this dialog to press for fundamental restructuring of the system in ways they believe would benefit them. Industrial countries attempt to strike a balance between promoting mutually beneficial change and preserving the fundamentals of a system which they believe has generally served well not only their interests but those of all countries.

It is this latter concept of a dialog we are discussing today. Yet, at the outset, I should note the interrelationship between the two concepts. Clearly, our bilateral relationships with developing countries and our actions in such specialized economic organizations as the General Agreement on Tariffs and Trade (GATT), the development banks, and the International Monetary Fund (IMF), all have

a strong impact on international political level discussions. And conversely, the tone set in the international dialog provides a backdrop on which more concrete bilateral and multilateral relations occur.

The north-south dialog grew out of the experience of the developing countries in the fifties and sixties, when they discovered that in the United Nations General Assembly they could command world attention. Unlike the Bretton Woods institutions, in which voting is weighted heavily in favor of industrial countries and meetings are closed to the public, in the U.N. institutions each country has an equal vote. Developing countries are able to make their demands heard and constitute majority votes in those fora, particularly when they acted in unison. They first used this power to demand an end to colonialism, but by the sixties, as the curtain rang down on the colonial empires, developing countries increasingly turned their attention to the international economic system in the U.N. fora.

The decade of the seventies marked an intense period of north-south dialog. Debate turned highly confrontational in the United Nations Sixth Special Session in the spring of 1974, in which the developing countries demanded a new international economic order. A more constructive tone was set in 1975 with the Seventh Special Session of the United Nations and the launching of the Conference on International Economic Cooperation in Paris, and in the spring of 1976 with UNCTAD IV in Nairobi. In 1979, the combination of a deteriorating world economic climate and dissension among the developing countries over their priorities and over the question of energy, led the developing countries to call for an inclusive, high-level round of global negotiations, to be launched by the 11th Special Session.

U.S. INTERESTS

As we prepare for this major undertaking, it is appropriate that we review the importance to the United States of the north-south dialog, the issues debated, and the factors which encourage or impede progress in the dialog.

For the United States, the developing countries are increasingly important both economically and politically. They are major suppliers of raw materials, including, of course oil, and are our most rapidly growing export markets. For example, from 1970 to 1978 U.S. exports of capital goods to developing countries quadrupled from under \$5 billion to over \$22 billion. In fact, taken as a group, developing countries now account for more U.S. exports than the European Common Market and Japan combined. During the recessionary period of 1974-76, while exports to industrial countries stagnated or declined, exports to developing—including oil-exporting—countries continued to expand. Without that demand for U.S. goods, our unemployment and production would have been even worse. About 24 percent of our \$170 billion in overseas direct investments are in developing countries, as well as around 31 percent of the \$190 billion in U.S. bank claims on foreigners. Profits and interest from these investments and loans play an important role in helping to offset the merchandise of trade deficits we have run in recent years.

The cooperation of the developing countries is becoming increasingly essential if we are to use the world's resources efficiently. We need to work with them if we are to continue effective use of the world's electromagnetic spectrum and to mine the floor of the sea and harvest its fish. Policies in developing countries which result in deforestation or desertification affect not only their own futures, but the future availability of food and timber, and even the nature of weather patterns, for the world community. Their attitudes toward pollution as they spur economic growth affect not only their own rivers and air, but the world's oceans and atmosphere.

It is also in our strong security interest to see that most of these countries find that we and our allies are receptive to their desires for improved economic growth. It is true that so long as we maintain a strong national defense, the direct threat of developing countries to the physical security of the United States is negligible. But the internal upheavals and regional disputes can endanger individual Americans and risk confrontation between the superpowers. Moreover, events of the past few years have demonstrated anew that even overwhelming force of arms cannot assure the United States of sure friends or the achievement of security objectives in the Third World. If the developing countries believe we are uninterested in their economic and political welfare, no amount of arms will win their respect and their cooperation on matters of importance to our security and well-being.

Perhaps even more important than these current considerations is the fact that the kind of world our children inherit will be heavily determined by the choices developing countries make as to their social and economic systems. The developing countries, after all, account for about three-quarters of the world population, and their share is increasing. The degree to which they identify or oppose the Western system of economic, social, and moral values will have an influence, perhaps even a determining influence, on whether our descendants live in a world which is hospitable to their values and welfare or whether they live under a psychological state of siege.

DEVELOPING COUNTRIES' GOALS

Thus, it is not only out of humanitarian concern, but also for hard-headed economic and security reasons that the United States should listen carefully to the concerns enunciated by the developing countries in the north-south dialog. These demands tend to revolve around three themes—obtaining needed foreign exchange, assuring availability of technology for development, and increasing the decisionmaking power of developing countries in the economic system.

The most important means of obtaining foreign exchange for most developing countries is through exporting raw materials or processed goods to the world community. Much of the north-south dialog has therefore revolved around developing countries' desire for higher and more stable prices for raw materials and improved market access for their manufactured goods.

Many developing countries, particularly the poorest, depend heavily on official development assistance to obtain their foreign exchange. They demand larger, more automatic transfers of re-

sources on concessional terms with a minimum of political and economic strings attached.

Finally, developing countries, particularly the more advanced, can also open their doors to foreign investment or obtain loans from private capital markets. They obtain resources in the present in return for promising to allow payment of profit, interest, and principal in the future. The terms and conditions under which international investment and capital borrowing take place, and what happens when disputes arise, are therefore another important area of debate involving resource flows.

Developing countries also want to assure that increased resource flows will be used productively. To this end, they want to see increased the amount of scientific and technological research which will be of benefit to the developing world. They would like to improve the terms under which technology is transferred through private and public means to the developing world. Finally, they want to increase their own capacity to develop, select, adapt, and apply technology to their specific requirements. These themes were highlighted in the U.N. Conference on Science and Technology for Development held in Vienna last year, and run through the negotiations on an international code of conduct on technology transfer being conducted under UNCTAD auspices.

The developing countries have also sought through the north-south dialog to increase their role in international economic decisionmaking. The dialog itself, by highlighting the economic concerns of the developing countries, partly accomplishes this goal. In addition, the developing countries have pressed for increased voting power in institutions such as the IMF, sought to move debate on particular issues to fora they find politically more hospitable—e.g., UNCTAD for trade—and proposed new institutions in which they have a greater role at the outset. The establishment of the International Fund for Agricultural Development, in which developing countries have two-thirds of the vote, and the voting structure being negotiated for a common fund, both reflect this last pattern.

In sum, the goal of the developing countries in the north-south dialog is to restructure the international economic system—to create a new international economic order—which has as primary objectives the promotion of their development and what they consider a more equitable distribution of the world's wealth.

EVALUATING THE INTERNATIONAL ECONOMIC SYSTEM

We understand and sympathize with the aspirations of the developing countries. However, we also have an enormous stake in the continuing smooth functioning of the international economic system. We are the world's largest exporter and importer of both raw materials and manufactured goods, the largest overseas investor, and the largest international debtor as well as the largest creditor. Major changes in the system can thus have important implications for our own welfare.

As we look back over the past three decades, we believe that the system has responded flexibly, if not always smoothly, to major changes in the world, including the growing economic and political importance of the developing countries. We favor continued evolu-

tion of the system to meet new situations. But suggested changes must have a high probability of improving the system for everyone—if this is not the case, it makes no sense to disrupt a system which works reasonably well.

We naturally have additional criteria with which we evaluate suggestions for changes in the system. We want a system which provides the stability and predictability that promotes trade and facilitates financial transactions—transactions which are increasingly long term in nature. This does not imply a system which resists change, but rather recognizes that national, social, and economic structures can only absorb change at a reasonable pace. Sudden changes in the rules of the game for investment and financial transactions, or massive shifts in trade patterns tend to inhibit overall economic activity. Thus, we favor needed change at a rate which can be absorbed without undue dislocations.

Second, we want an international system which promotes efficient use of the world's resources. As the current energy situation has made us painfully aware, we cannot afford to waste the world's resources—be they capital, raw materials, or human beings. We have thus pursued an international system of basically open trade and free capital flows. We are convinced that such a system will result in countries benefiting from their comparative advantage and increased global efficiency.

Additionally, as we are all well aware, industrial countries are faced with domestic budgetary constraints, particularly in these times of stagflation. This is a major reason that we find it difficult to accept some of the developing countries' most pressing and legitimate claims, such as those for more official assistance and greater access to our markets. These are claims which do not jeopardize the world economic system, but do require increased expenditures on aid and adjustment programs for workers and industries affected by increased imports.

In a sense, then, the north-south dialog involves weighing a variety of politically, economically, and socially desirable goals—development, growth, efficiency, equity, and stability—in evaluating specific policy proposals. This is not dissimilar to the same kind of evaluation which the executive branch and the Congress must make in determining domestic policies. In both cases, it is a complicated process, but one in which progress is possible and imperative.

PROGRESS IN THE NORTH-SOUTH DIALOG

And progress has been made in the north-south dialog. Measures have been taken which benefit both developed and developing countries, and which have brought developing countries more fully into the international economic system. Without going into great detail, a few examples can be mentioned:

In commodities, new agreements on rubber and sugar were negotiated, and the United States joined the tin agreement. Negotiations are well along on a common fund, with a final package hopefully to be concluded in June. Liberalizations of the IMF's Compensatory Finance Facility in 1975 and 1979 are particularly useful to raw materials exporters.

In the Tokyo Round the industrial countries agreed to cut tariffs by about one-third and impose greater discipline on nontariff trade

barriers. In addition, the United States signed 27 bilateral agreements with developing countries. Further, all the industrial countries had previously implemented preferential tariff systems to help LDC's.

In finance, new facilities established in the IMF and enlarged quotas can make resources available to meet a variety of developing country adjustment problems in larger amounts and on more flexible terms. Two weeks ago agreement in UNCTAD was reached on a restrictive business practice code.

Regarding development assistance, in the past 4 years replenishments involving over \$100 billion have been negotiated for multilateral development banks and funds. This includes \$40 billion for the World Bank's general capital increases, which will guarantee its ability to operate well into the eighties. The International Fund for Agricultural Development was established in Rome. Individual industrial and OPEC countries have expanded their own assistance programs.

Special attention has been given to the poorest developing countries. Official development assistance to them has risen from a level equal to about 4.1 percent of their combined GDP in 1971 to approximately 10.3 percent in 1978.

In technology, we agreed at UNCTAD to the establishment of a interim fund for science and technology for development. Earlier, at the Tokyo Summit, we agreed to double the resources of the international agricultural research centers, which focus on developing countries' agricultural problems.

PREREQUISITES FOR SUCCESSFUL NEGOTIATIONS

If we wish to continue to make progress in the north-south arena, we should consider what factors have contributed to successful outcomes in the past. Two points are worth emphasizing. First, the dialog has been most productive when it has been focused on specific issues and on realistic proposals. UNCTAD II dealt with trade preferences and UNCTAD IV on commodity agreements and the Common Fund. Developing countries continued to press these themes at subsequent international meetings, and positive accomplishments were eventually forthcoming.

Second, progress is most likely when there are clearly mutual interests involved, rather than one side asking the others to make concessions without getting anything in return. Regarding commodity policy, for example, the United States responded in the belief that stable commodity prices and production benefit consuming as well as producing countries. Unduly low prices discourage producers and can lead to subsequent shortfalls and high prices, and sharply rising prices have an inflationary impact on consumer economies. Similarly, liberalizing the Compensatory Finance Facility not only helped raw material producers to offset temporary shortfalls in their export earnings, but enabled them to maintain their demand for manufactured goods at a more constant level, thus having a beneficial countercyclical impact on producers of capital goods.

These conditions have sometimes been lacking. Last year at UNCTAD V in Manila, for example, the developing countries produced a long list of demands, but with no particular focus. The

Conference was hence an unstructured affair which produced limited results. Developing countries prepared their positions for UNIDO III in the highly political atmosphere of Havana, and not only produced another long list of demands with little focus on attention to the interests of industrial countries, but also put forth a totally unrealistic proposal for a \$300 billion North-South Fund for the promotion of the industrialization of developing countries. Once again progress proved impossible.

One reason it is so difficult for developing countries to limit their attention to a few priority items is the wide diversity of interests among them. The poorest countries need increased official development assistance, middle income countries want balance-of-payments support and improved conditions for commodity trade, and the wealthier developing countries are most concerned about access to markets for industrial products, to private capital markets, and to technology. Oil importing countries want stable oil prices and help to pay for the oil; oil exporting countries worry about industrial country inflation and security of their financial assets. Policies which might help one group of developing countries are of limited value or even detrimental to others. This results in formulating a list of demands based on a maximum common denominator which satisfies their collective political needs, but limits their political effectiveness in dealing with industrial countries, and greatly complicates the overall dialog.

U.S. PREPARATIONS

As we prepare for global negotiations, we have carefully reviewed our experience in north-south discussions, and examined the critical problems we see ahead. We know we are moving into a period of high oil prices, relatively low economic growth rates, and major financial imbalances. Slow growth and trade deficits will tempt many parties to urge protectionist trade measures. Further, a number of developing countries will face increased food shortages by the mideighties.

In the next few years we must find ways to use energy more efficiently and locate new energy sources. We must find ways to assure that the enormous OPEC surpluses are recycled to allow reasonable growth levels to continue. We need to resist protectionist pressures and to assure growth in food production.

In the longer run, we must be certain that all countries can and do increase their production of convention and nonconventional energy, as we move away from economies based on petroleum to ones based on a broader mix of energy sources. We need to encourage all countries to take positive measures which will encourage their economies to adjust to changing conditions, and we must help developing countries increase their food production.

These are major tasks, which must be pursued on many levels and in many fora. Some may be too urgent to await attention in the global negotiations. For example, the IMF and IBRD already are examining new ways in which they can respond more effectively to the financial problems caused in large part by the recent rise in oil prices. But the global negotiations provide one mechanism which could help address these problems. The United States has accordingly devoted considerable attention to examining ways in

which the international community might take maximum advantage of the global negotiations.

We suggested at the outset that we should try to focus the global negotiations on a limited number of subjects of interest to all participants where there was a realistic possibility of achieving tangible results. When the developing countries nonetheless presented a lengthy agenda including almost all topics covered in north-south discussions over the years, we urged that, at a minimum, the participating countries agree to focus immediately on an early action program which would address critical problems.

Specifically, we proposed that the global negotiations immediately turn its attention to four topics:

A worldwide trade pledge to resist protectionist pressures and to promote positive adjustment;

Assistance for exploration and development of energy resources in energy deficient countries;

Improved world food security by fulfilling national targets of the food aid convention, backing these commitments with food aid reserves, and improving food storage and distribution in developing countries;

Suitable steps to facilitate the recycling of payments surpluses.

We are certainly open to other suggestions. But we emphasize that in such an early action program, we should select critical issues on which early agreement is possible. The global negotiations could identify these key issues and provide the political impetus needed for negotiating specific agreements in specialized fora, where they exist, or in the global negotiations themselves, when there are no other appropriate fora. Once an early action program has been launched, the global negotiations could turn to longer term problems, such as food production, population and health, and structural adjustment.

We are pressing this approach in the preparatory work for global negotiations and in the special session itself, if agreement on an agenda for global negotiations has not been reached by that time. It should perhaps be reiterated that global negotiations are but one forum to address these problems. And it should also be pointed out that global negotiations, even if successful, will not solve all of the problems of the LDC's. The negotiations, and the north-south dialog in general must be kept in perspective. Genuine economic development depends on a complex variety of factors. The institutions and the rules of the international economic system are of course important. But at least as important are policies of major industrialized countries with respect to inflation, growth, and trade, which together set the tone of the world economic environment. And of course the most critical variables are the developing countries' own policies, which influence either positively or negatively the millions of economic decisions by households, entrepreneurs, and firms which must provide the core of economic development. After all, we have examples of economic success stories and economic disasters among the developing countries—both occurring within the existing international economic system.

Unfortunately overall development policy—as opposed to specific demands—is seldom addressed in north-south fora. The negotiation of an international development strategy for the 1980's is an excep-

tion, where greater attention is paid to the contributions both industrial and developing countries ought make to development.

Like its predecessor of the 1970's, the new IDS is intended to set down to a more systematic and more rational approach to economic and social development. It should provide a basis for meaningful coordination of national and international programs. By supporting provisions for reviewing development progress, we hope to make the strategy a document of continuing relevance through the decade.

Negotiations, however, have been contentious and the G-77 and the industrialized countries still have major differences on the content of the net strategy. The developing countries are pushing for growth targets to be accepted as commitments, rather than as indications of what we hope can be accomplished. They also have included in their suggestion for policy measures a series of proposals for special development funds and other transfer mechanisms to which the industrialized countries cannot agree. There is one more regular negotiating session before the special session at which occasion the strategy, if accepted, is scheduled to go into effect to guide the U.N.'s Third Development Decade.

The 11th Special Session, then, provides a unique opportunity both to launch a process of global negotiations which focuses on improvements in the international economic system which might benefit us all, and to address questions of development strategy and goals which might better define how both industrial and developing countries can accelerate economic development. This is an important opportunity which we cannot afford to waste.

Thank you, Mr. Chairman.

Mr. BINGHAM. Thank you. We will be happy to hear from Ambassador Spero. I would like to express a special word of welcome since she occupies a position that I once occupied, a long time ago.

STATEMENT OF HON. JOAN SPERO, U.S. AMBASSADOR TO THE UNITED NATIONS ECONOMIC AND SOCIAL COUNCIL

Ambassador SPERO. Thank you, and thank you for your words of welcome.

Much of the north-south economic dialog takes place in New York at the United Nations, and our mission to the United Nations heads the U.S. representation in these talks. Thus, I am pleased to be here today to talk to you about the process of north-south economic discussions in New York: The dynamics of the north-south negotiations themselves and the political environment within which discussions are conducted.

At the United Nations, economic issues are among the principal concerns of developing countries. Problems associated with poverty and the quest for economic development in Third World nations are enormous. With world inflation, recession and the oil crisis the problems are increasingly serious. In the view of the less developed countries, the developed world and many of the existing international economic institutions pay insufficient attention to their economic plight and to their development needs. As Under Secretary Cooper has noted, what the LDC's want is to create a new international economic order which will promote their development and

which will thereby lead to a more equitable distribution of the world's wealth.

In order to draw attention to their problems and to achieve their desired order, the developing nations feel they need a forum that commands maximum visibility, insures high-level participation by developed states, and offers procedures which make possible participation by all governments. The United Nations General Assembly and the subsidiary economic bodies it has created meet these requirements. They are highly visible. Their debates receive high-level attention in the capitals of the industrialized world. And all nations participate in their deliberations on an equal basis regardless of size, wealth, or strength.

Hence, the United Nations has been the focal point for the conduct of north-south negotiations. Indeed, as Under Secretary Cooper has mentioned in his statement, during the last decade all high-level north-south meetings, except for CIEC, were conducted under U.N. auspices—some in New York and some elsewhere. The U.N. in New York—particularly the General Assembly—will continue to be a central forum for north-south issues. The procedures, practices, and organization of the U.N. system therefore will continue to be important features in shaping the north-south dialog.

We in New York are now engaged in the most recent phase of the north-south dialog: Preparations for the special session of the U.N. General Assembly which will be held in late August and early September of this year. Two central topics for discussion, and we hope agreement, at the special session will be the United Nations international development strategy for the 1980's and the global round of negotiations. We at the U.S. Mission are now engaged in intensive preparatory negotiations for the special session.

CONTEXT OF NORTH-SOUTH NEGOTIATIONS

Before describing those negotiations, it may be useful to review the context of north-south negotiations and specifically the dynamics of the interaction among the principal economic working groups at the United Nations.

The less developed countries cooperate closely on economic issues in the United Nations through the Group of 77. The G-77 emerged as less developed countries sought to mobilize and maximize the bargaining advantages which derived from their growing numbers and voting strength in the General Assembly. The group was initially created in the early 1960's by the united action of 77 countries at UNCTAD, the U.N. Conference on Trade and Development, and it has evolved as the principal vehicle for developing country cooperation on economic issues at the United Nations.

Let me clarify a few points about the G-77. The group is not the same as the "Non-aligned Movement," although the membership of the two groups overlaps substantially. The present 119 members of the Group of 77 represent virtually every developing country, including some that are aligned with one or the other of the major blocs. In contrast to the non-aligned movement, the G-77 focuses its attention almost exclusively on economic issues. It is a highly decentralized, though cohesive, body, with annual revolving chairmanships. The G-77 places great stress on and has succeeded in achieving a large measure of group solidarity. There exist, howev-

er, considerable economic and political differences among developing countries which reflect the various levels of development they have attained, the differing approaches they prefer to take toward development, and their access to resources, particularly oil.

In addition to the G-77, there are two working groups in New York. There is no formal industrialized country group but instead a loosely coordinated, informal working group, whose members represent governments which belong to the OECD. These delegations participate actively in the north-south dialog. The group of Eastern Bloc Socialist States remains on the sidelines for the most part, on the pretext that Western nations, as former colonial powers and as dominant forces in an exploitative international market, are solely responsible for the Third World's economic problems.

There are advantages and disadvantages to conducting north-south negotiations against the backdrop of these working groups. The G-77 can be an extremely rigid negotiating body. Because of its size, it is cumbersome and slow-moving. The need to present a united front encourages the group to adopt a "lowest common denominator" approach that simply adds up individual claims and concerns of the members and reflects the tremendous diversity of national interests among the group's members. The need to present a united front and the lowest common denominator approach inhibit the setting of priorities and also make the group rigid in negotiations. Having carried out intense internal negotiations to develop a group position, it is difficult for the G-77 to be flexible in altering its demands and positions in the process of negotiations beyond the group.

Finally, such a large group of 119 nations must rely on strong leadership by a few, often self-selected, activist nations and individuals. If the G-77 activists are radical, as they have been at times in the past, they are able to exert a disproportionate influence on the group's position. All these factors create a strong tendency for the Group of 77 as an institution to polarize north-south negotiations.

There are, however, positive aspects to the existence of a group of developing countries. The existence of the group has enabled us to focus on the valid needs of developing countries and provided us with a necessary interlocutor, both in formal and informal consultations. The G-77's insistence on consensus can also lead to moderation. Under responsible leaders like the present Indian chairman, the G-77 can reach effective compromises that take into account the interests of both industrialized and developing states. These more moderate leaders can inject an element of realism in the group, and help it achieve greater flexibility and thereby aid us all to achieve agreement on issues of common concern.

These negotiating dynamics have great importance for the series of north-south negotiations on which we are now embarked. The key conference will be the General Assembly special session on development, scheduled to be held just before the regular General Assembly session this September. The special session was originally scheduled over 2 years ago, for the purpose of approving the international development strategy and thus launching the U.N.'s Third Development Decade, but its mandate was expanded last year to include responsibility for launching the global negotiations. It is

now likely that the special session will itself become a major negotiating forum.

NEGOTIATIONS FOR A NEW INTERNATIONAL DEVELOPMENT STRATEGY

Let me first address the negotiations for a new international development strategy which have been going on now for more than a year. Progress has been limited, and there will be only one more 3-week preparatory session in June before the special session.

The new international development strategy will be a complex document, intended to provide a long-term blueprint for efforts on the part of governments and international institutions to promote economic and social development in the 1980's. It attempts to establish economic and social goals, objectives, and specific targets to be achieved over the course of the decade, to accelerate the development of the Third World countries as well as to sustain global development. The strategy will also contain specific policy measures to implement its objectives and targets.

The G-77 has been attempting to include in the strategy commitments by developed countries to increase official development assistance as well as to provide financial resource transfers and reforms in the international monetary system. For our part, the United States and other developed countries have attempted to introduce the concept of necessary reforms within developing countries to facilitate their own development, particularly in the area of social development. We would also like to see the strategy provide for a system of review and appraisal which would evaluate all countries' performance.

GLOBAL ROUND OF NEGOTIATIONS

Let me now turn to the global negotiations.

In conception, global negotiations are to be a new departure for the United Nations. The intent of all parties is to engage in truly meaningful negotiations about difficult economic issues affecting both north and south. The United States is anxious to avoid the pitfalls of some past U.N. negotiations. In particular, we want to avoid getting bogged down in the negotiation of omnibus "declarations" in which real disagreements are papered over with acceptable, but ultimately meaningless, language. We mean to achieve real, not merely rhetorical results.

To that end, the resolution of the last General Assembly for global negotiations called for the negotiations to "contribute to the solution of international economic problems" and "to reflect the mutual benefit, the common concerns and the responsibilities of the parties concerned." The resolution authorized the Committee of the Whole to act as a preparatory committee for the global round and charged it with making agreed recommendations on an agenda, procedures, and a time frame for completing the negotiations.

The Committee of the Whole is currently holding its third preparatory meeting and will reconvene once more in June prior to presenting its results to the special session. The Committee has not yet reached consensus on the difficult issues it faces, but it has

grappled with all of them. Let me review for you briefly the results of the Committee's early sessions on agenda and procedures.

A very long agenda has been proposed by the Group of 77. It constitutes a virtual compendium or "shopping list" of all recent economic proposals by members of the group in various international fora. Some proposals address serious issues of mutual concern while others reflect more narrow interests, less appropriate for global negotiations. Although we understand the group dynamics leading to such an omnibus proposal, we feel that unless it is subjected to rigorous priorities, the G-77 agenda would likely lead to only superficial discussion—and meager results.

For our part, the United States believes that priority attention and actual negotiations should focus on a few issues of paramount urgency which also offer the possibility of early, concrete results. With other OECD countries, we have suggested food, energy and protectionism as agenda items. The United States has also proposed a four-point early action program, including a trade pledge to halt protectionism, further development of energy resources in energy deficient countries, improved world food security, and facilitating recycling of payments surpluses.

In the Committee of the Whole, the European Community and Switzerland have made rather detailed proposals on agenda which are compatible with our approach. As yet, however, there is no meeting of minds on agenda, but we hope the last preparatory session, in June, will bring us close to a workable compromise.

Both the United States and the G-77 have already indicated their preferences for procedures to govern the global negotiations. We and the other OECD countries favor decentralizing the negotiations. Multilateral fora, such as the IMF, the IBRD, GATT and the FAO exist for discussing many of the most pressing international economic issues. We would prefer to take up these issues in the fora which have the mandates and the expertise to conduct such negotiations. Where no global forum currently exists, as is the case with energy issues, we might expect global negotiations to lead to the formation of some mechanism within which continuing discussions can take place. We have also emphasized that we do not wish to interfere with ongoing negotiations in other U.N. fora.

Under our proposals, the central forum in New York would by consensus agree on general objectives for negotiation which would be carried out in a specialized fora. After these fora have completed negotiations, the central body would review their results.

The Group of 77 have a different view of the way in which the negotiations should be conducted. They would prefer that a single global forum be set up to negotiate all issues, regardless of the existing mandate and competence of the specialized agencies.

Global negotiations are high on the list of priorities of the U.S. mission to the United Nations. Mission staff has been very actively involved in the work of the Committee of the Whole, seeking the sort of focused agenda and procedures which will facilitate realistic negotiations toward achievable ends.

In this enterprise, we of course work closely with our Washington colleagues. To the extent the U.S. Mission can play a special role in the global negotiation process, it arises out of our intimate knowledge of the United Nations and our constant contact with the

G-77 and with the delegations of developed countries in New York. In the coming months, our special objectives include:

Improving the coordination of our strategy with other developed countries;

Working with the Group of 77 to assure an acceptable and realistic agenda for the negotiations;

Achieving decentralization, so that we can respect the mandate and take advantage of the expertise in existing U.N. fora;

Finding ways to increase informed and serious consideration of the substance of issues.

We anticipate that global negotiations will be a long and arduous process with no quick and easy results in sight. In this process, we will work to protect our own national interests while contributing to the larger common good of the international community. Our approach need not and should not be confrontational. There is some give and take on every good-faith negotiation, and we have high hopes that satisfactory progress will be made in global negotiations to improve the international economic environment for both developing and industrialized countries.

Thank you, Mr. Chairman.

Mr. BINGHAM. Thank you very much, Ambassador Spero. I notice that you carefully avoided using the acronym "COW." I am curious as to whether in U.N. circles these days that is the acronym that is used for "Committee of the Whole."

Ambassador SPERO. You are correct.

Mr. BINGHAM. We are now happy to welcome the Honorable Fred Bergsten, Assistant Secretary of the Treasury.

Mr. Bergsten, we would appreciate a quick summary of your statement and also a word or two about the House-Senate conference on the development banks bill.

STATEMENT OF HON. C. FRED BERGSTEN, ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS, DEPARTMENT OF THE TREASURY

Mr. BERGSTEN. Well, Mr. Chairman, let me apologize for being late. It was because I was laboring in the vineyard of north-south relations, and I am happy to report to you that the conference committee has reported out the bill on the regional development banks. We hope it will be coming back to the House floor early next week and hope to get the program back on the track with that action.

Mr. BINGHAM. Could you tell us what is the essence of the agreement?

Mr. BERGSTEN. Yes. The agreement was to report out 90 percent of the proposed authorization for the Inter-American Development Bank; 85 percent of the proposed authorization for the Asian fund; the full 100 percent for the African fund. Most of the conferees stated quite explicitly their understanding that the remainder would be proposed to the next Congress and expressed the hope that it would be made up in the next Congress.

So, this was the essence of the outcome and, as I say, we are hoping that legislation will be passed quickly now by the full Congress. These banks have been unable to make new lending commitments for several months. People are hurting as a result of

that. So, I hope this will now break the logjam and we will be back in business with these very crucial programs.

Mr. BINGHAM. And ready to proceed with the negotiations we are talking about here today.

Mr. BERGSTEN. Well, that was one to the points I was going to make in my testimony. I really wanted to make only two points. One is to say that global negotiations—with a small "g" and a small "n"—have of course been going on for a long time in many fora, and with a great deal of very positive results.

RECENT PROGRESS

If you look over the last 3 or 4 years of north-south economic relations, I think sight is sometimes lost of the enormous progress that has in fact been made despite the difficult economic and political circumstances around the world. We often tend to focus on confrontation, difficulties and disagreements in north-south relations; but to me the most remarkable thing is the very dramatic shift that has occurred over the last 4 to 5 years.

If we think back to 1973, 1974, the sixth special session of the U.N. General Assembly, there was very hostile confrontation, deep disagreement and rancor between industrialized and developing countries. Frankly, one does not see that today. I think there are several reasons for that, but one key reason—and I document it in some detail in my statement—is that an enormous amount of progress has been made on trade issues; on commodity issues; on foreign assistance issues; on international monetary issues; and on other areas as well. I document numerous cases in point in my statement. Enormous progress has been made through negotiations between developed and developing countries in a whole array of functionally specific fora—the IMF, the World Bank, the GATT, the UNCTAD commodity agreements.

Let me just tick a few things off. Agreement has been reached on a \$40 billion increase in the capital of the World Bank. Agreement has been reached on a \$10 billion increase in the Inter-American Development Bank, and the conference committee today will put it in place. Quotas at the IMF are being increased by about \$40 billion, of which a fourth are quotas to the developing countries. Those numbers alone add up to quite a substantial amount of agreement between industrialized and developing countries which both transfer resources to developing countries and represent joint gains, mutual benefits for both industrialized and developing countries in this enormously interdependent world economic order in which we now live.

In the trade area, which is undoubtedly the most critical area for the widest range of developing countries, the MTN cut tariffs sharply, helped hold down protectionism, opened up \$30 billion worth of Government procurement to eligible countries around the world, and put in place a number of codes to regulate world trade which protect the export interests of the developing countries.

In the commodity field—and Dick Cooper has had a major role in this—we have negotiated a sugar agreement. We have participated in the tin agreement. We negotiated a rubber agreement. We are about to complete a common fund.

STRENGTHENING THE MONETARY SYSTEM

Calls have been made for international monetary reform to help the developing countries, and there has been enormous international monetary reform, of benefit to all countries. The compensatory finance facility of the IMF has been liberalized: Developing countries drew on it more in the first 2 years of that liberalization than they had for the whole previous 15-year history of the facility.

As I indicated, IMF quotas have been increased sharply, including those of the developing countries. The Witteveen Facility, for which the Congress ratified U.S. participation 18 months ago, is now being used very extensively by the developing countries to help recycle some of the OPEC surplus funds in a way that contributes to developing country adjustment to the new energy situation and to correction of their external imbalances. There are numerous other instances in which IMF financing has benefited the developing countries, as I point out in my statement.

So, there has been international monetary reform. Now—all these areas—I am not suggesting that we sit on our record, rest on our laurels, and quit. More needs to be done. International monetary reform, international economic progress, international cooperation between developed and developing countries is an evolving business. We are working on it every day in a multiplicity of fora.

The point I want to make is that there has been a record of success. We should be neither defensive nor negative, because the process works. We have institutions which do work. The record shows that progress can be made.

This cooperative approach must also provide a basis for further steps in additional areas where not enough progress has yet been made, as well as in some of the areas I mentioned where more things need to be done.

That is a key point I want to make. The confrontation of 5 or 6 years ago has been replaced to a large extent by cooperative efforts between industrialized and developing countries, with very concrete results.

I would also make one institutional point. Ambassador Spero was commenting that in New York discussions the developing countries want to focus on a single, centralized locus of negotiations in the U.N. rather than elsewhere. That, I must simply report to the committee, is not absolutely clear. Last fall in Belgrade and again at the Hamburg meetings just 3 weeks ago, for example, at the Interim and Development Committees, the group of 24, which is the caucus of the developing countries in the international monetary area, made a set of reasoned, serious proposals for consideration in those fora.

The fact that the United States in U.N. meetings has supported—as Ambassador Spero said—the decentralized approach may help account for the presentation of the group of 24 proposals to the Development and Interim Committees. We have indicated our belief that meaningful progress can best be made in the functionally specific institutions devoted to particular problems—whether it is the GATT for trade, or the World Bank for assistance, or the IMF for monetary affairs. The developing countries have taken us at our word. They have now gotten their act together, and offered a

set of very serious, reasoned proposals dealing with SDR allocations, quota shares in the IFM, and a few other issues.

I think some of those proposals will not be acceptable to the United States, but we are in a serious dialog there. The Interim Committee voted to put those issues on its agenda for its meeting in September and they will be seriously considered by the board of the IMF between now and then. This is one more indicator that developed and developing countries can work closely together and are working closely together in the fora where the action takes place and where the record is good.

NEED FOR CONGRESSIONAL ACTION

The final point I want to make, Mr. Chairman, is that on many of these issues, both the substance of the negotiated efforts and the credibility of the United States have been damaged by the failure of the United States to follow through promptly and fully on the agreements it has reached.

I would certainly not point the finger solely at the Congress in that respect; the administration, I am sure, in many cases has not done an adequate job of preconsultation or selling the results, or doing everything it could to follow through. But it is imperative, if we are to continue along this path of negotiating specific agreements on particular topics—which I regard as the right path and a successful path—whether it is a sugar commodity agreement, or a rubber agreement, or replenishment of the African fund, or a quota increase at the IMF, that we in the United States get our act together so that we can promptly and fully ratify and implement those agreements already made. If we do not, obviously we lose credibility in the whole process, and then the tendency for politicization, confrontation, and difficulty comes back into the picture.

So, I would urge—as I have done in my written statement—that in the remaining business that is to be done, including the replenishment agreements for the development banks and on several commodity issues, the Congress take note of the importance of carrying out those results not only for their substantive merit, which is considerable, but in order to avoid the risk that the whole process of effective collaboration with the developing countries could be sent awry. If test risk come to pass, we would be forced back into the kind of politicization, confrontation, rhetorical framework that I think none of us want.

Thank you very much.

[Mr. Bergsten's prepared statement follows:]

PREPARED STATEMENT OF HON. C. FRED BERGSTEN, ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS, DEPARTMENT OF THE TREASURY

INTRODUCTION

There has been a great deal of progress in North-South economic relations during the past four years. Significant results with mutual benefit to all sides have occurred on trade, monetary, commodity, food, energy, and resource transfer issues. There is, to be sure, much more that can be accomplished. But the key to further success is three fold: a realistic recognition of both the achievements of the past and the needs of all nations, developed and developing, and a commitment to pursue the common interests of all rather than to seek benefits for one group at the expense of another.

Some observers have suggested that North-South relations could be headed for extremely rocky times over the next four years. It is certainly true that the

crippling effect of higher oil prices, coupled with the dual problems of inflation and recession in the developed countries, may continue to cause serious problems for some developing countries. These and other key economic issues can, however, be addressed constructively through existing international institutions which have served the global community well in the past such as the International Monetary Fund (IMF), the Multilateral Development Banks (MDBs), the General Agreement on Tariffs and Trade (GATT). We must continue to use these functionally specific forums to consolidate the progress already made; they hold the expertise, the experience, and the basic commitment of governments which is essential for further progress.

The capability of the United States to reach agreements of mutual benefit and to avoid acrimonious political debate, however, is severely handicapped when the credibility of our negotiating posture is weakened by perceptions of our inability to deliver. I refer specifically to the current need for Congressional action with regard to MDB authorization and appropriation legislation, which I will address in more detail later.

My comments today will focus on two key issues: first, the progress achieved in recent years; and second, the critical need for Congress to support the International Financial Institutions and the U.S. position therein, given the particular importance of these institutions in the current economic environment.

RECENT PROGRESS

The Administration's comprehensive approach to North-South economic relations has led to significant progress on a number of fronts.

Trade.—The United States reinvigorated the deadlocked Multilateral Trade Negotiations (MTN) and brought them to a successful conclusion. As a result of the negotiations, the major industrialized countries will reduce their industrial tariffs by 33 percent on a weighted average basis. A 25 percent cut in developed country tariffs will be made on items or traditional export interest to LDCs. U.S. tariff cuts on LDC products, excluding textiles and apparel, average about 35 percent.

New non-tariff codes on subsidies, government procurement, standards, import licensing and customs valuation will provide a much more open and stable environment for future trade growth for all nations. The procurement code alone will open over \$30 billion of trade to eligible countries. The agreements also provide a permanent legal basis for special and more favorable treatment of developing countries, accompanied by more liberal rules on trade measures taken by LDCs for development purposes. Since opportunities for trade expansion are probably the single most important feature of the world economy for most developing nations, the MTN agreements mark an enormous step forward in North-South economic relations.

Trade is also probably the most important area of U.S. economic relations with developing countries, and provides the clearest example of mutual benefits for industrialized and developing countries alike. Exports are an important generator of U.S. investment, production, employment and income. The non-oil LDCs are by far the fastest growing market for U.S. exports, where our sales have tripled from \$16 billion in 1973 to \$48 billion in 1979.

Imports help dampen inflation and encourage competition and, hence productivity. Despite the fact that the United States accounts for only about 40 percent of the combined GNP of the industrial countries, in 1978 the United States took more than 52 percent of developing country manufactured exports to all industrial countries. Nearly 22 percent of all our manufactured imports in 1978 came from developing countries; the corresponding figure for all other industrial countries was less than 5 percent. U.S. economic growth since the global recession of 1975 has been particularly beneficial to the non-oil LDCs, whose exports grew much faster to the U.S. Market than to either Japan or the European Community.

Energy.—With strong support from the United States, the World Bank plans to support oil and gas projects which, combined with private and government financing, will total more than \$33 billion over the next five years. This should ultimately provide an additional 2.5 million barrels of oil equivalent a day to the world market. Our own Overseas Private Investment Corporation (OPIC) has established political risk insurance for oil exploration, production and development in developing countries, with significant results already. These multilateral and bilateral efforts will help reduce the dependence of developing countries on expensive oil imports and, at the same time, improve the world energy balance—a clear example of mutual benefit to industrialized and developing countries alike.

Commodities.—The United States supports the negotiation of stabilization agreements to reduce commodity price volatility, to lessen inflation in the consuming countries and stabilize resource availability for investment and growth in producing countries.

The International Sugar Agreement was finalized in September 1977; the President signed the necessary authorizing legislation in April. The framework of an agreement for the Common Fund has been negotiated and the full treaty is scheduled for completion in June. The Natural Rubber Agreement, completed in October 1979, is now receiving congressional consideration. The United States participated actively in the recent renegotiation of the International Tin Agreement, and has offered to make a stockpile contribution to the current agreement.

In short, the previous U.S. policy of "rejecting commodity agreements on a case-by-case basis" has been replaced by a positive, constructive approach—because we believe such agreements are of mutual benefit to ourselves and the developing countries alike.

Food.—The Administration has continually sought to improve world food security. It supported the creation of a \$1 billion International Fund for Agricultural Development (IFAD), which is helping the developing countries increase their food production. We have pledged 4.5 million tons of food aid annually under the International Food Aid Convention, nearly half of its 10 million ton target. U.S. farmers, acting on government incentives, placed 35 million tons of grain in reserve during 1977-1978; the value of this reserve was demonstrated last year when 14 million tons were released into the market in response to rising world demand. By ending the set-aside program in agriculture, we have helped provide more food for the world and more markets for our farmers. We have proposed the creation of the special domestic food aid security reserve of four million tons of grain, which will guarantee our ability to meet our food aid commitments even under tight market conditions. Indeed, the government has already purchased the four million tons of wheat destined for this reserve.

The United States has been in the forefront in urging the multilateral development banks to help develop effective food strategies; in particular, we strongly support the World Bank's program to improve food distribution and storage infrastructure in developing countries. The World Bank is far and away the largest single source of external fundings for agricultural and food production, providing over 40 percent of all official commitments to agriculture. Over the five years just ended, total lending commitments equalled \$11.6 billion, representing 33 percent of total lending. The World Bank expects to finance projects which will contribute approximately one-fifth of the increase in annual food production in its developing member countries in the 1980s.

Strengthening the monetary system

As the world's central monetary institution, the IMF provides the basic framework for international monetary cooperation. Its resources are made available to all members, developed and developing, to help them implement economic adjustment programs to correct balance of payments problems. In the wake of the latest oil price increases, the IMF has expanded its financing activities and in the early months of this year has provided resources and made loan commitments amounting to \$2.8 billion—all for developing countries, and more than it lent in all of 1979.

The IMF has increased substantially the resources available for its lending, through establishment in 1978 of both the \$10 billion Supplementary Financing Facility and its sixth quota increase (of which about a quarter goes to developing countries). These countries receive a similar share of SDR allocations, which will total \$4 billion annually during 1979-81. The Fund will receive a further injection of resources from the seventh quota increase, scheduled to take effect this fall. And, in light of the size of current payments imbalances and the attendant adjustment and financing requirements, the IMF will be conducting discussions with potential lenders on the terms and conditions on which the Fund could borrow additional resources, if and when the need arises.

The Fund has also greatly expanded access to its resources through the Supplementary Financing Facility, the substantial liberalization of the Compensatory Financing Facility, and quota increases. As a result of these steps, member countries can in some cases obtain financing which exceeds 600 percent of their quota.

In view of the difficult adjustments which countries must make to the changed economic situation and new energy balance, the period of adjustment and repayment associated with IMF financing has been increased. For example, economic adjustment programs can now be implemented over a three year period compared with the one year programs normally required in the past. The maturities on IMF loans have been increased to 10 years on Extended Fund Facility drawings and 7 years on Supplementary Financing loans, compared with the 3-5 year repayment periods on regular IMF financing.

Finally, the IMF is examining further steps that might be taken to improve its ability to meet members' balance of payments requirements, including actions to reduce the interest cost on supplementary Financing drawings and the possibility of

using part of the Trust Fund repayments to ameliorate the conditions of loans to low income developing countries.

Multilateral development banks (MDBs)

The MDBs are a cost-effective and efficient means by which the United States can help developing countries help themselves. Because these institutions are at the heart of international efforts to address the fundamental concerns of the developing countries, the Administration has been unwavering in its support of the MDBs.

For fiscal year 1979 the Congress voted a record level of appropriations of \$2.5 billion for the MDBs, up from \$700 million voted for fiscal year 1977 before this Administration took office. We have supported a capital increase for the World Bank of \$40 billion and a replenishment of almost \$10 billion for the Inter-American Development Bank. We participated in a new replenishment of over \$2 billion for the Asian Development Fund and an expansion of membership that will increase the capital of the African Development Bank by \$4.5 billion. For IDA, the largest concessional assistance program in the world, we have completed our contribution of 31 percent to the fifth replenishment of \$7.6 billion and have pledged 27 percent to the sixth replenishment of \$12 billion for 1980-82.

The need for congressional action

Implementation of many of these initiatives now requires Congressional action. Several pieces of commodity legislation are still pending. Early floor action is needed on the latest IMF quota increase, already reported out by the Senate Foreign Relations and House Banking Committees.

Most urgent, however, is passage of the necessary authorization and appropriations legislation for the MDBs. The failure of Congress to do so has already resulted in a suspension of lending from the Inter-American Development Bank, and the Asian Development Fund. This can have severe economic and political consequences for developing countries throughout the world. It also weakens U.S. influence in these institutions, and in overall North-South relations, and leads other donor countries to doubt our pledges across a wide range of negotiations. This is an untenable position for the United States.

Such Congressional inactions seriously damage the moral, political and economic leadership role of the United States. At the recent meeting of the IMF Interim Committee and IMF/IBRD Development Committee in Hamburg, criticism of U.S. delays concerning the MDBs was a major topic. Many developed and developing countries expressed their acute concern, both formally during the meetings and informally in the corridors. Many countries drew attention to the fact that any cessation of MDB lending caused by U.S. inaction would adversely affect development prospects in a large number of countries at a time of greatly growing need.

Countries were also troubled that the current problems concerning the regional development banks might spill over into the whole range of MDB issues, including the IDA VI replenishment and the IBRD General Capital Increase. These concerns were expressed explicitly in the Development Committee Communiqué, where legislative difficulties were singled out as threatening a hiatus in the commitment authority of the banks.

U.S. failure to meet its pledges to the MDBs is rapidly becoming a major issue in U.S. relations with the developing world. The concerns expressed in Hamburg will almost certainly be echoed in other North-South forums unless we move quickly to repair the situation.

The IMF and the World Bank provide complementary sources of external capital. In the narrow sense, they have distinctly different functions and objectives. Yet both aim fundamentally at a strong global economy. The energy situation has brought to the surface the widespread need for structural adjustment in all oil-importing countries—developed and developing countries alike.

By cooperating closely, the Fund and Bank can enable countries to undertake the needed medium-term structural adjustment, while simultaneously meeting the shorter-term external financing needs. Fund policies aimed at eliminating internal and external imbalances can be reinforced with structural adjustment programs supported by the Bank. However, without strong and unwavering support from the United States for these two institutions, as well as the regional development banks, the international financial institutions will be unable to demonstrate the flexibility and strength necessary to meet the economic challenge before us.

CONCLUSION

There has been considerable progress during the past few years in North/South relations. In the process of attaining this progress, we have sought to ensure that the policies adopted will provide benefits for the United States as well as for the

developing countries. Indeed, this is the only politically viable way in which such progress can be made.

The primary task before us now is to consolidate and make full use of those international economic instruments which have recently been put in place or improved, most of which I have discussed today. Once we have implemented the new agreements and given them a chance to work, we can determine what further steps need to be taken.

At home, this requires timely and faithful implementation—including by the Congress—of the various steps which have been worked out internationally. Abroad, it requires patience and perseverance in effectively utilizing the agreements of the late 1970s. By building on the progress made on specific issues in functionally specific forums over the past few years, we can hope to evolve a more stable and equitable world economy in the 1980s and beyond.

Mr. BINGHAM. Thank you very much, Fred.

SERIOUSNESS OF PURPOSE

I suppose you would all have to agree that the four statements you have made here today would not be received especially joyously by representatives of the Group of 77, were they here. Is that a fair statement? Does anybody disagree with that?

Mr. COOPER. I think it is fair to say also, Mr. Chairman, that they would not be surprised.

Mr. BERGSTEN. And if they did not receive them joyously they might receive them, as Dick suggests, realistically. We are prepared to make further progress. We want it to be substantively based, make good economic as well as political sense, and be sustainable in all our countries. Without that, there is nothing to it.

Mr. EHRLICH. They would also agree, I think, that the issues raised are serious issues that have to be dealt with seriously.

Mr. BINGHAM. I do hope—realizing the cogency of much of what you say—that there will be an effort, particularly at the special session, to come forward with a positive program and to continue the serious discussion of the last few years.

I remember when we were going through a similar exercise in preparation for the last special session of the General Assembly. There was a feeling on the part of some of us on the Hill that the administration's positions were worked out hastily. The positions might have been perceived as being more forthcoming if there had been somewhat earlier focus. Insofar as there has to be more focus and certainty, we thought these hearings would be useful.

BRANDT COMMISSION REPORT

I would like you to comment on the Brandt Commission Report. It certainly is a remarkable report, considering the membership of the Commission. It was mentioned only casually in your statements, and I would like to hear more about your reactions to it.

Mr. COOPER. Mr. Chairman, perhaps Tom, who has taken the lead on that, could comment on that. Before he does, I would like to comment on your first observation.

We share completely your view that adequate advance preparation is necessary. We have tried to take these global negotiations seriously. We have been meeting internally since very soon after it was agreed that there should be global negotiations. We have concentrated our efforts not on how to get through a series of general, very general, U.N. resolutions, but on how these global negotia-

tions might actually lead to tangible results which benefit real people which is, after all, the object of our foreign economic policy in this area.

Early on, when Ambassador McHenry addressed the Preparatory Committee, we tried to stake out those areas in which we thought progress was most likely to be made. So, we have systematically taken the whole exercise seriously.

As our statements reflect, these efforts have not met so far with a resounding success, and we will still confront a very long agenda on the Group of 77 side, reflecting the diversity among the Group of 77. So, there is a certain pulling together that is required, but I thought you ought to know that we have taken the exercise very seriously.

Mr. EHRLICH. In terms of the Brandt Commission Report, Mr. Chairman, we will be providing the President with an interagency review of the more than 100 recommendations.

It is fair now to say that it is a most important document. One of the striking things about it is the emergency action proposals; the short-term action needs, as opposed to the medium and longer-term proposals included in the Brandt Commission report.

Much of the emergency action program spelled out in the Commission's analysis is basically the same early action emphasis that we have in our own priority listing—in terms of food, in terms of energy. The two key-sector concerns in the emergency action portion of the Brandt Commission Report are the same two key sectors of priorities that we say are most important in the immediate future.

Increasing development resources, the third of the four emergency measures, is enormously important and we are pressing to increase those both multilaterally and bilaterally; and strengthening over time the international economic system, a process that Fred Bergsten described has been well under way and needs to continue.

So, the focus of the Brandt Commission and the focus of our own efforts are very close together. We hope, therefore, that the report can serve to press forward the overall efforts of developed and developing countries quite successfully.

Mr. BINGHAM. Thank you. Would you comment specifically about the proposals to provide OPEC countries some assurance of stability in their markets and price increases reflecting worldwide inflation, in return for arrangements to recycle their funds into the developing world? This idea was developed in an earlier hearing by your former colleague from Yale, Prof. Albert Fishlow. Is that a realistic kind of arrangement?

Mr. COOPER. I might comment on that. Certainly, energy will be one of the central elements of the global negotiations, and we have suggested that a review of prospective energy balance, supply-and-demand patterns, and, implicitly, pricing patterns should be undertaken. This, I think is an important exercise, from an educational point of view on all sides.

When it comes to the prospects for striking a deal of the type that is sometimes mentioned, a global bargain on energy in which supply and price assurances are given by OPEC countries as a group in exchange for whatever there is on the other side—assurances as regards the security and the rate of return on their

investments, increased aid flows to developing countries, and so forth—there is a problem because a few of the OPEC countries have explicitly connected the oil side of it to requests for a whole range of concessions from the industrialized countries in other areas. That was done in CIEC and it is being done again in global negotiations.

But leaving this to one side, I have to register a certain skepticism about whether such a deal could be struck and, if struck, could be carried out effectively on both sides.

When one contemplates in technical detail the requirements for maintaining, for example, a steady path of oil prices, there is first the question of what the path should be, and second, maintaining that agreed path. These are formidable challenges.

One has only to think of our experience during the last 18 months in which the second-largest oil exporter of the world has had a revolution. How can OPEC countries insure the rest of the world against a repetition of that kind of event which was, as we know from 1979, a source of major disturbance in the world oil market?

STANCE OF OPEC NATIONS

Mr. BINGHAM. Ambassador Spero, in your negotiations in New York what do you detect as the general attitude of the OPEC representatives? Do they tend to adhere strictly to the Group of 77 line, or is there some distinction?

Ambassador SPERO. Well, in one way it is hard to talk about what OPEC is doing because they do act, as you know, as part of the Group of 77.

Second, not all of the OPEC countries are active presently in the Group of 77. I mentioned before that the leadership of the Group of 77 in some ways is a self-selected group, and sometimes it is a group that is self-selected by individuals as opposed to nations.

There are certain OPEC countries which have been active in the negotiations and in fact were instrumental in the original decision to hold global negotiations—I am thinking particularly of Algeria and Venezuela. So, it is very difficult to talk about the OPEC countries per se. They act within the group.

I think now, generally, the OPEC countries that are active within the Group of 77 are very much holding back, as Mr. Cooper has described, on raising the sort of larger issues of oil and oil supply and have focused—as have we—on the issues of developing alternate forms of energy in energy-deficient countries.

There is the suggestion that they may be interested as well in monetary issues, but this is down the road.

Mr. COOPER. It has to be added, however, that several of the key OPEC countries have not so far taken a great interest in the global negotiations.

Mr. EHRLICH. It is also fair, I think, to say that the Brandt Commission Report itself recognizes that energy is in effect a series of quite different sets of issues, resources, conservation, and financing, and does not suggest—at least as I read it—a simple single global deal but rather a complex of steps that would have to be taken.

Mr. BINGHAM. Is it not true that in the last couple of years Third World countries have been more willing to criticize OPEC, and specifically, to demand greater assistance from OPEC?

Ambassador SPERO. I think if you start with UNCTAD V last year, in which the non-oil producing less developed countries were dissatisfied with the fact that energy was not included on the agenda, and trace that through a number of conferences, including the Non-aligned Conference held at Havana last fall, you will find exactly what you have suggested, that it is—as I tried to suggest in my statement—an increasing diversity among the LDC's over a variety of issues, and now one of these issues is increasingly oil and increasingly visible, since the increase in oil prices at the end of 1978.

However, so far the Group of 77 has held together on this issue; there is no split within the Group of 77. I should note that at the same time that we have the global negotiations, there is another series of negotiations going on, the so-called north-south dialog, which is taking place. There will be a meeting in June. It is there that a number of these energy issues as they relate to OPEC and the oil-importing developing countries will be discussed.

DECENTRALIZATION OF NEGOTIATIONS

Mr. BINGHAM. On the issue of whether the global negotiations should be centralized or decentralized, I agree that to the extent possible they should be decentralized and held in existing institutions where there is the proper expertise.

I wonder, and I am just thinking out loud, if there is any way to encourage—perhaps on a bilateral basis—the delegations to the U.N. to reflect in these separate negotiations the constituencies of the existing institutions.

In the Congress, when somebody suggests taking on a new role, there is always a constituency of people saying, "Well, that is what we are doing." Thus the matter does not get very far, and sometimes that is a weakness.

But there is not enough of that, in my observation, in the U.N. system. A group of delegates come together for something like a set of global negotiations, and they may have no connection with the people from those same countries who are working at FAO on food problems, or at IMF on financial problems.

So, something new is suggested and nobody is there to represent the existing institutions. I wonder if any of you would care to comment?

Mr. COOPER. You get that kind of phenomenon you referred to very clearly when it comes to allocating the budget. There, the development agencies step forward and lay down their stake. The trouble with the more general negotiations is that the implicit assumption of the Group of 77 is that they are not operating under a budget constraint and therefore we do not get the potential budgetary conflict that arises.

We try to remind them, but it is a reminder which—to use your words earlier—they are not overjoyed to hear, that there are budget constraints when it comes to setting up new overlapping institutions.

Mr. BINGHAM. On the issue of centralization versus decentralization, how will that be resolved? Do we have an effective veto power over setting up centralized global negotiation?

Ambassador SPERO. The understanding in the resolution and the procedures of the COW—now I used the word—are that agreements will be reached by consensus. So, the Preparatory Committee can only operate by consensus. In effect, that gives us a form of a veto over the eventual procedure of the global negotiations. So, we will be—again to respond to your earlier question about the constituency supporting the specialized agencies, the strongest supporters of those institutions, as are the other OECD countries.

Mr. BERGSTEN. I might just add, Mr. Chairman, and really respond to both of your questions, that I think you put your finger on the problem, which is coordination within governments, as between different ministers.

I think, as Dick said, we have very close and pretty effective coordination within the U.S. Government. That has not always been the case, as you know. But at this time it is the case.

But other governments, frankly, are not. I will often ask my counterparts in finance ministries about why it was that their foreign minister made a statement 2 weeks ago in some forum, and a frequent response is, (a) "What did he say?" And (b) "If so, that bears no relationship to what I am doing in running my country's economic policy."

So, there is a real problem with internal coordination in other governments. Now, what can we do to help that out? It is not really our problem, but what can we do to make the decentralized approach work and credible?

I think the basic answer and what I was trying to say in my statement is to show results in the functional forum. We have a very interesting example now in the monetary area. As Ambassador Spero said, one of the items a number of countries have suggested for the agenda of the Global Negotiations—capital "G" capital "N"—has to do with recycling of the petrodollar surpluses. In fact, by the time the Global Negotiations really get under way next year, I strongly suspect that there will have been major new steps stemming from the global negotiations—with small "g" and "n"—to deal with that problem.

Already, at the Interim Development Committees last month in Hamburg, the managing director of the IMF was encouraged to go out and borrow directly from the OPEC surplus countries to increase sharply the contribution of the IMF to the recycling process.

A blessing was given to the new structural adjustment lending program in the World Bank, which is carried out in close cooperation with the IMF, which is another major new element in addressing the recycling issue.

The Development Committee has set up a task force on non-concessional flows under the chairmanship of Mexico, in which we are cooperating very actively and closely, to look at the whole range of ideas for any additional changes that may be necessary to improve the recycling process. It is going to make its first report in September, at the annual meetings of the IMF and World Bank.

Mr. BINGHAM. I have to interrupt you because I have to go for a vote in about 30 seconds, and I think we should not prolong the

hearing. I want to make one quick comment and then leave two questions to be answered for the record, please.

I think you are right in what you say, and one key is maximum possible involvement of Congress in the process, so that as you arrive at these agreements, as the saying goes, we have been involved on takeoff as well as landing.

I would like to ask you two questions for the record.

Why is technology transfer a hot issue now? We have been talking about technical assistance for 25 years. Is it primarily a problem of patents?

The other question is about the common fund. It is interesting that you said so little about it. Has that idea lost appeal? Or did you say so little because we are close to a resolution on that issue?¹

Finally, without objection, the statement submitted by the Center of Concern will be included in the record at this point. [The statement referred to follows:]

STATEMENT OF THE CENTER OF CONCERN

THE THIRD DEVELOPMENT DECADE: THRUST TOWARD A MORE HUMAN WORLD

In the Fall of 1980, the United Nations will hold a Special Session of the General Assembly on the topic of the Third Development Decade (3DD). The Special Session will review the progress made toward the establishment of the New International Economic Order (NIEO), and design an International Development Strategy (IDS) to guide relationships between the industrialized world and the developing countries in the struggle to meet the challenge of global poverty in the 1980's. Because the Special Session will touch on key issues in the on-going North/South dialogue, it will provide a significant forum for examination of the meaning--content and context--of development, both under-development in the South and over-development in the North.

With a focus on a "more human world," the CENTER OF CONCERN is engaged in an eighteen-month project on the social justice/human values perspectives of the Third Development Decade. The CENTER's efforts will include: (1) research papers and memoranda analyzing the issues; (2) small consultations with persons concerned about similar issues; (3) participation as a non-governmental organization (NGO) at the Special Session itself, and (4) public education through popular articles and lectures. The CENTER is cooperating with several other groups in this effort, including several national and international NGO's. A particular interest of the CENTER is to promote wider public participation in the discussions, debates, and decisions of the Special Session preparations and actual meeting.

An important part of the CENTER's Third Development Decade Project will be an attempt to draw on and incorporate into its own analysis the work of various individuals and groups throughout the world, but particularly from the developing countries. We hope that this will counter any North American limitations and biases, and enable us to present the thinking of the South on how social justice should be achieved in the current economic relations between rich and poor countries.

¹The responses appear in appendix 4, p. 267.

The CENTER OF CONCERN is an independent, interdisciplinary team engaged in social analysis, policy advocacy and public education around questions of social justice with particular stress on the international dimension. Holding NGO Consultative Status with ECOSOC, it has participated in many United Nations Conferences on issues of international concern: population, food, women's rights, trade, development, unemployment, disarmament and science and technology for development. The CENTER has outreach into policy-making religious and civic communities and publishes a free bi-monthly newsletter. Financial support for the Third Development Decade Project, as well as for other CENTER projects and operating expenses, comes from donations, staff earnings, and grants.

For further information on the Third Development Decade Project contact Peter Henriot, Jane Blewett, or Phil Land.

1. OPENING QUESTIONS FOR THE THIRD DEVELOPMENT DECADE

Introduction

This year of 1980 marks the beginning of the Third Development Decade (3DD), a third period of ten years during which the massive problems of the developing nations will again be highlighted on the world's agenda, particularly at the United Nations. These problems include food and population, trade and aid, energy and environment, human rights, disarmament, women's rights, employment and technology. As the gap grows between rich and poor--within and between nations--these problems take on new seriousness and call for new responses.

The present memorandum is the first in a series which the CENTER OF CONCERN will prepare during 1980 to address the questions uppermost in our mind as we explore alternatives for the Third Development Decade. Three specific projects within the CENTER will be focusing on issues integral to 3DD: (1) the Special Session Project will monitor activities relating to the United Nations General Assembly Special Session on Economic Issues (scheduled for New York, August 25- September 3); (2) the Labor Project will continue its focus on the role of labor movements worldwide as a source of mobilizing power and bonding people to protect the concerns of workers and their families; and (3) the Women's Project will probe the implications for development of the growing awareness of women's roles and participation in the public arena.

The theme of the CENTER's efforts will be "Development As If People Mattered." In this first memorandum we explore a framework within which to situate our concerns and we raise questions about new definitions of these concerns. We welcome the reactions and suggestions of our readers.

Focus During the 1970's

During the 1970's, the Second Development Decade, the CENTER OF CONCERN has followed closely the debates and decisions on global development topics. We have dealt principally with issues and actors, trying to bring to bear a particular perspective of global social justice.

First, we have dealt with the issues of greatest challenge to the human family struggling to survive together in an increasingly limited and interdependent world. We have examined food, population, trade,

monetary relationships, employment, women, human rights and basic needs, technology, resources, and many more key issues. Our social justice perspective has pushed us to ask questions of values. Thus we have tried to insert into the more technical discussions a central consideration of the human values involved. What is the human meaning, for example, of particular models of development? Or what impact would some technology transfer have on the lives, the power, the culture, of the people affected? Who benefits from certain decisions? Who suffers?

Second, we have approached these development issues in terms of the major actors, the nation states. We have taken seriously the many different forums in which these actors appear: the various United Nations conferences, the North/South dialogues, the Conference on International Economic Cooperation (CIEC), the meetings of the Group of 77 and the Non-Aligned Nations, etc. Our social justice perspective has made us sensitive to questions of global restructuring, as we have tried to listen in a particular way to the voices of the developing countries, the Third World. For example, what is the Group of 77 saying about trade and debt and, more important, why are they saying it? What are the legitimate points contained in the call for a New International Economic Order (NIEO)? Is it a mechanism for bringing about greater equity between rich and poor nations?

But as we enter the 1980's, at the end of two decades of worldwide concentrated focus on development, the picture is grim. For the majority of the world's people, the poor and powerless, the situation seems worse than ever. In addition, there is a growing awareness that problems experienced acutely in the developing countries, e.g. inflation, unemployment, etc., are experienced similarly in the industrialized world, and are linked to the same structural causes. Development as a process of human growth and well-being and of society's coping with scarce and limited resources also confronts the First World head-on.

The 1970's might well be called the "Decade of Disappointments." The 1980's face us as the "Decade of Crises."

Thus the CENTER OF CONCERN staff is asking whether we need new definitions for our focus on development from a social justice perspective. Has our focus on issues been too technical, even though we have tried to insert value questions? And no matter what formal restructuring might occur, have we, in fact, focused on the actors who are really the significant forces for social change in today's world?

Arenas of Crises

We begin the Third Development Decade without clear guidelines or tested models. But we do have a sense of increasing crisis, the "crisis of crises." How would we describe this, and its effect on all our lives as we struggle to relate to a process of development "as if people mattered"? We see three main arenas of crises.

1. The Economic Arena: "crisis of livelihood."--For the majority of the world's population--and it is not simply a problem of the poor--the task of making a living, simply making ends meet, is more and more problematic. The instruments of the world's economy, technology and capital, are increasingly unaccountable to communities of people. The technology driving modern industrialization is, in the description of E.F. Schumacher, big, complex, capital-intensive, and violent. It by-passes the unmet basic needs of people, especially of the poor. Capital is scarce and decisions affecting its utilization are made by large corporations, large banks, and large governments, all beyond the reach of most people.

2. The Political Arena: "crisis of democracy."--Around the world we see a rise of totalitarianism of both the right and the left. The "national security state" reigns repressively supreme in many areas. Trade unions are outlawed, peasant movements suppressed. A growing proportion of people feel that they no longer have any stake in the political system as it is presently structured. They struggle to carry on their life and to work for the future outside of the mainstream "politic.."

3. The Cultural Arena: "crisis of meaning."--Across the globe, the force of old myths and symbols is disintegrating. New ones have not yet emerged. In particular, we sense a breakdown in the myth of "progress", in the dream that science and technology can bring the good life for everyone. Science and technology are being challenged as the "engines" of a development which really improves the human condition. This is especially true of western values and material standards. For example, the current Islamic revival is demonstrating to all of us the tremendous resilience of tradition and the rejection of cultural impositions.

Dynamics For Change

In addition to the economic, political, and cultural arenas wherein different crises are occurring, there are social divisions which give rise to the dynamics of the struggle for change. People recognize themselves in relationship to categories of sex, race, class, nation, and environment. In each relationship there are forces affecting change and presenting new questions to be faced.

- sex: women moving into the public arena, participating in the decision-making process, challenging traditional patterns of social relationships. How seriously do we take the women's movement?
- race: apartheid, represented either in legal forms in South Africa or economic forms in unemployment figures in the United States. Do we understand the depth of feeling about racial identity and about reaction to historical domination?
- class: rich/poor divisions, as well as the ambiguous middle strata, within each society and between nations at the

- international level. Do we see linkages among "class interests" across national borders?
- nation: economic and political competition, distinct cultures, neo-colonialism, super powers, repressive governments; the need for national identity. How sensitive are we to these many dimensions of nations' role in global networks?
- environment: threat to ecological sustainability by various development patterns. Do we take account of the importance of this factor in people's daily lives?

Third Decade Preparations

A cursory review of some of the recent official materials being generated in anticipation of the 3DD debates and decisions has not, in our opinion, revealed any new breakthroughs in the thinking about development. To be honest, many of the reports might just as well have been written at the opening of the Second Development Decade.

The UN Committee for Development Planning in its March-April 1979 Report recommends five or six areas for renewed commitment--trade, oil, monetary, etc.--the same as the recommendations made in 1970. No suggestions appear as to how these technical recommendations, unimplemented in the 1970's, will be acted upon in the 1980's. The Development Assistance Committee of OECD in its 1979 Report urges that "development" be given a new priority on the world's agenda, through an increase in trade and an effort to move development assistance from the rich countries toward that elusive 0.7% of GNP figure. The international and independent Brandt Commission indicates that it will call for "structural reform" to facilitate international cooperation. But it does not discuss the politics of that reform--who promotes it, who blocks it, why it has not succeeded before, and what new forces are necessary for it to succeed today?

One study which, to our mind, does offer a key suggestion is in a recent "Development Charter" published by the International Confederation of Free Trade Unions (ICFTU). It urges greater linkages between labor movements throughout the developing world and those in the developed world. Without such linkage, organized labor movements will be destroyed in the face of opposition from repressive governments and outmaneuvering from transnational capital.

New Definitions

In light of these reflections, the CENTER OF CONCERN staff is asking what new directions need to be pursued in order to move into the Third Development Decade with more insights and more hope.

As indicated at the outset of this memorandum, we feel a new commitment to direct our efforts toward "development as if people mattered." This means that the basic question to be asked in reviewing development models, strategies, and recommendations is: what is happening to people?

And in particular, what is happening to poor people? The poor are a focal point, a concentration, of what is happening to others, to the middle class as well. The poor are experiencing in a more intense fashion the consequences of a development process which does not focus primarily on people.

What does this mean for defining the issues and the actors of the process for 3DD?

1. Issues.--The major problem facing the world community is not one of productive capacity and the rate of growth. Rather it is the problem of the character of production and the character of distribution. What are the implications for employment, environment, community control, and the basic needs of people?
2. Actors.--The major problem for achieving change is to identify the significant carriers of social change. For one thing, this means thinking outside the traditional categories of nation/state/government, and taking seriously the reality of contending social forces (classes) within societies. What are the implications for NIEO discussions and for the design of an International Development Strategy?

As we move into the Third Development Decade, and approach the Special Session on Economic Issues, the questions raised in tentative fashion in this memorandum will be guiding the work of the CENTER OF CONCERN. Key to the social justice approach we take will be the search for new identification of issues and actors.

Further Reflections

On January 29, the CENTER OF CONCERN invited several people from the "development community" in Washington, D.C., to an afternoon meeting to probe the line of thinking outlined in this memorandum. From both governmental and non-governmental groups, the participants reflected on the preparations for the Special Session scheduled for late August at the United Nations in New York. This Session is to produce an International Development Strategy (IDS) to guide the development process for 3DD. There was a generally skeptical attitude among the group about the ability of the Special Session to achieve new levels of commitment to the poor anywhere in the world. And a particularly ominous note pervaded the conversation as a result of the recently heightened level of military confrontation in international affairs. It was recognized that the North/South issues are in danger of being engulfed in East/West dynamics. And the struggle to shift resources from the building of arms toward meeting development needs will be all the more up-hill.

In reviewing the exchange of insights and comments, the CENTER highlights the following points which emerged in the discussion:

- The 1980's will be qualitatively different with regard to people's livelihood. Increasingly, people are becoming irrelevant to the productive process--as many as 50%. This is most noticeable among the poorest sector but not limited there. Same phenomenon is moving into the middle class. This can only lead to a crisis of democracy. As people lose their economic value to the State, they become part of the problem. Thus the livelihood issue--the "time bomb of the 80's"--must open up political strategies.
- Nothing continues to be more delicate than the question of sovereignty. How can questions be raised about internal policies and issues without being accused of interference? Continued need to use education and research to point out each government's responsibility to its own people.
- Urgent need to describe linkages between issues that impact lives of people in both First and Third world. Justice and development education is increasingly essential.
- Widespread rejection in Third World of Western models of development. Disenchantment with values/priorities of the West is particularly significant in the case of Iran.
- Unless women are incorporated into the development process at every stage, from defining the problem to shaping the solution, the betterment of society will simply not occur.
- Question of power--who controls, who distributes, who shares--is key. Shifts in controlling forces within some nations in recent times (e.g., Iran, Nicaragua). Important to watch movement of power.
- Social budget being curtailed in many societies. All the more need to search out and build up small democratic forces who can work for economic changes through political action. E.g., trade union movement faces vital challenge in the 1980's. Trade unions are not seen as basic human right in many societies, but there should be efforts to draw attention and protection to them.
- NGO's have been traditionally defined by what they "are not." In 1980's they should take on increased role of speaking for the people, working with and among grassroots people and representing their concerns at other levels.
- There is very serious concern about shifting emphasis from development questions to military/strategic questions, especially after events in Afghanistan.
- One major message for the 1980's: the economic pie is not going to grow significantly, so the key message to learn is how to share equitably the pie that exists.
- To reach people more directly, address people's problems more specifically. What other points of entry to a nation are there than the "state"?

II. PROSPECTS FOR THE THIRD DEVELOPMENT DECADE NEGOTIATIONS

Introduction

Preparations are underway for the United Nations Special Session on Economic Issues scheduled for late August in New York. This is the third such "special session" focusing on economic matters, following upon the landmark 1974 Special Session at which the developing nations of the Third World put forth their call for a New International Economic Order (NIEO). Since that event, through a long series of global conferences, regional forums, and within the General Assembly of the United Nations itself, the structural changes called for in the NIEO have been on the world agenda with increasing urgency and validity.

This August Special Session, coming at a time of increasingly strained relations between the industrialized nations of the North and the developing countries of the South, will face a particularly difficult task in formulating a new development strategy for the Third Development Decade (3DD). Careful preparations at the UN level, at the level of the individual nation states, and among the Non-Governmental community (NGOs) are all the more urgently needed.

Questions From UNIDO III

As part of the CENTER OF CONCERN's preparatory work for the 3DD, a small gathering of Washington-based NGOs met at the CENTER in late March. The purpose was to consider the most recent world conference, the UN Industrial Development Organization's third global gathering (UNIDO III), held in New Delhi in February. Our special interest was to look at the UNIDO conference for its significance in the on-going North/South debate and as setting a tone for the up-coming August Special Session.

Ambassador John McDonald, who served as US Coordinator for the New Delhi conference and who had previously represented the US government at several global meetings in recent years (the ILO, TCDC, UNCSTD, etc.), was invited to give his read-out on the event. His remarks confirmed what had been reported in the press--that UNIDO III not only did not achieve any new level of understanding between the North and

the South, but in fact had led to a hardening of positions on both sides.

In the course of the discussion with Ambassador McDonald and among the participants at the WSO gathering, several points were made which raised questions relevant to the Special Session and the on-going 3DE debate. The following are some of these points and questions:

1. UNIDO III, while supposedly concerned about "technical" matters of industrialization, in fact struggled--as have all the other global conferences of the past decade--with the shifting power relations between the countries of the rich North and those of the poor South i.e. with the NIEO agenda.

--Will the Special Session, by achieving some very specific structural changes in the areas of trade relations, world credit, broadening of decision-making processes, etc., support the power shifts and move toward greater global equity?

2. Some of the break-down in communications at UNIDO III was the result of unacceptable working documents submitted by various clusters of countries--the G/77, the OECD countries, the Socialist bloc--at unpredictable moments during the conference itself.

--Will there be an agreed upon working draft document for the Special Session ready far enough in advance that adequate preparations can be made by individual countries and blocs--thereby eliminating the chance for the excuse of "lack of preparation" to be made?

3. At UNIDO III--as at most of the world conferences of the past decade--a new global fund was called for, \$300 billion by the year 2000. These funds are usually seen as a means of transferring wealth from the rich North to the poor South, and to the degree that these funds are really agreed upon by all parties, guidelines and mechanisms worked out, and a responsible party or parties designated to pursue the work of setting them up, they have in fact come into being and been effective instruments. (See, for example, the International Fund for Agricultural Development (IFAD) which was created at the World Food Conference in Rome in 1974.) However, other funding efforts, although included in the final consensus documents of a UN global conference, have not yet--and one wonders if they ever will--come to fruition.

--Since the Special Session has on its agenda the items of raw materials, trade and development--all of which areas already include demands for "global funds" that have either failed in the past or never been really agreed upon by the North--what kind of serious "new fund talk" can be meaningful at the New York session?

--Does the Brandt Commission Report in its call for a World Development Fund present new mechanisms and new motives to look for a breakthrough in this matter?

--And what of OPEC? Does it have and is it meeting new responsibilities--especially toward the very poor, debt-ridden countries? Is there a danger that the North will make OPEC the "villain" and try to shift the major burden of funding demands to them?

4. Even while political positions were hardening at UNIDO III between the North and the South, the very process of industrialization as it has been known in the world since the Industrial Revolution is undergoing a fundamental and radical challenge posed by the new micro-computer technology. Seemingly, UNIDO gave little or no attention to this so-called "chip revolution" and its overwhelming impact on the whole development process and, in particular, on the lives of workers and the poor.

--Who is really grappling with the impact on the LDC's of the "chip revolution"? The cheap labor of the Third World that has been used--frequently misused and exploited--will no longer provide what developmentalists who espouse the present high technology and industrialization process call a comparative advantage. How can new development models be introduced that are sensitive to the role of workers?

--What indication is there that the elite parties who will be representing their countries at the Special Session so talk about global economic problems are any more in tune with the "crises of livelihood" (See CENTER OF CONCERN NED Memorandum #1, February 28, 1989) now facing the majority of the world's people than were the "experts" at UNIDO?

--How can the NSO community keep bringing to the fore the life and death concerns of the world's poor, of women, of workers, as preparations move along toward the August session?

Additional Questions Raised During the Discussion

--How can we avoid divorcing "economics" from the political, social and cultural movements underway at the present time? (See JUB Memorandum #1, February 28, 1989)

--Freedom and values--at what cost are they maintained and what trade-offs will be required? What sacrifices, particularly from the rich countries, will be required in order to share more

equitably with peoples in the rest of the world?

- Given that energy is one of the five topics on the agenda for the Special Session, what changes is the US willing to commit itself to in order to have a fruitful dialogue in this area?
- What hope is there that the US will face up to its global responsibilities toward the poorer nations and peoples of the world in the current climate of strained North/South relations, as well as increased East/West confrontation?
- Can the preparations for the UN Women's Mid-Decade Conference in Copenhagen in July be fed into the Special Session preparatory process and can the NGO community make a special contribution to the Women's Conference by raising the broad, contextual questions at every opportunity?

A New "Global Round" of Negotiations

New developments as a result of a Ministerial Meeting of the Group of 77 in New York, March 11-14, include a proposal that the global economic negotiations--which broke down after the Conference on International Economic Cooperation (CIEC) and were then moved back into a Committee of the Whole within the United Nations--resume full session in January and run continuously until mid September, 1981. This would be termed a "Global Round" on economic negotiations. What this means in relation to the discussions for the Special Session on Economic Issues (August 25-September 5) is not at all clear at this point.

One thing does become more apparent, however--the increasing demand on the part of the Third World to make the Third Development Decade, the 80's, an "action" decade. After a full spectrum of global conferences--environment, population, food, employment, desertification, women, human settlements, water, trade, science and technology, agrarian reform, world communications, industrial development, etc., etc.--and thousands and thousands of exhortations and numerous Plans of Action, the lot of vast numbers of the world's people remains inhuman and their numbers grow. The G/77 want the Global Round to continue until the "negative trends in international economic relations" can be reversed.

This proposal of the G/77 will be placed before the Committee of the Whole at a preparatory meeting in New York in April, for further discussion and clarification. It will be important to note the response of the other Committee members, the OECD countries in particular. It is no exaggeration to say that the mood at this time is pessimistic for much progress. But it is also no exaggeration to say that the mood will be even more pessimistic--especially among the world's majority, the poor and hungry--if little or no progress is forthcoming.

Mr. BINGHAM. Thank you very much.

Mr. EHRLICH. Thank you, Mr. Chairman.

Mr. BINGHAM. The subcommittees stand adjourned.

[Whereupon, at 3:30 p.m., the subcommittees adjourned, to reconvene at the call of the Chair.]

NORTH-SOUTH DIALOG: PROGRESS AND PROSPECTS

THURSDAY, JUNE 19, 1980

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
SUBCOMMITTEE ON INTERNATIONAL
ECONOMIC POLICY AND TRADE,
Washington, D.C.

The subcommittee met at 10:15 a.m., in room 2172, Rayburn House Office Building, Hon. Jonathan B. Bingham (chairman of the subcommittee) presiding.

Mr. BINGHAM. The Subcommittee on International Economic Policy and Trade will come to order. Today the subcommittee concludes its hearings on the north-south dialog. We have held three hearings designed to assess our Government's preparations for the upcoming U.N. Special Session, to evaluate U.S. policy on north-south economic issues more generally, and to explore the U.S. national interest in north-south economic relations.

These hearings have been held jointly with the Subcommittee on International Organizations, chaired by the gentleman from Washington, Mr. Bonker. Due to a scheduling conflict, that subcommittee is unable to participate with us today.

We have the rare privilege this morning of welcoming to the subcommittee the distinguished former Prime Minister of Great Britain, the Right Honorable Edward Heath. Mr. Heath was a member of the Independent Commission on International Development Issues, known as the Brandt Commission, which issued a far-reaching report earlier this year entitled, "north-south: A Program for Survival."

It is in that capacity that Mr. Heath appears before us today, and we look forward to hearing his views on the report and the responsibilities of the developed countries in working to achieve an international economic order that is both productive and equitable.

Mr. Heath, we Members of Congress often complain about having to commute between here and our districts, so we are especially impressed that you commuted all the way from London especially to be with us today. We are honored to have you. I would note that a summary of the Commission's report is before the members, and you may proceed in any manner you see fit.

[The summary referred to follows:]

SUMMARY

NORTH-SOUTH: A PROGRAM FOR SURVIVAL

REPORT OF THE INDEPENDENT COMMISSION ON INTERNATIONAL DEVELOPMENT ISSUES

The Brandt Commission, which has been considering north-south issues over the past two years, is now publishing its report, entitled north-south: A Program for Survival. The report analyses the world's economic and social predicament as it affects the Third World, and concludes with a set of far-reaching proposals for the reform and restructuring of the world system—which, in the Commission's view, are essential to avert disaster and in the mutual interest of both north and south.

The report breaks new ground in several ways. The Commission's members are prominent politicians and public figures from both north and south. They served independently and not under government instructions. Many of them had not previously been closely associated with Third World issues, but became convinced of the central importance of these issues for the world's prospects in the next decades. They believe these issues will affect the material interests of ordinary people everywhere. The report is designed to be read by the non-specialist.

As well as treating subjects which do not often come up in the Third World context (disarmament, relations with Eastern countries, refugees), the report tries to relate the different items it covers. Thus it shows the connections between foreign debt, recycling, the problems of bank exposure, and protectionism, or between mineral and energy problems, commodity issues, and the need for a better regime to govern the behaviour of multinational corporations. The measure proposed in the report are interrelated both analytically and politically; the solutions to world problems are connected and all countries' problems must be addressed if they are to sit around the table and negotiate fruitfully.

The report has a number of constructive new proposals and also attempts to bring before a wider public some valuable ideas which previously have been largely restricted to technical discussion. (The full range of the report's recommendations are not repeated here. In the report, they are set out at the end of each chapter and summarized in an annex.)

In his introduction, Chairman Willy Brandt makes a "plea for change" based on his own experience. He stresses that the current recession and economic instability are more serious than past recessions, calling for much bolder reforms. "It is precisely in this time of crisis that basic world issues must be faced and bold initiatives taken."

He notes that while there is a new awareness that mankind is a single community, the international situation has gone from bad to worse during the Commission's two years. But, he says, "It seems to be a permanent task for man to shape order out of contradictions."

He discusses the dangerous build-up of weapons and the threats to peace, not just through possible wars, but through growing chaos, and he insists that "people must be made aware of the relationship between the problems of disarmament and development." He calls for a summit of world leaders, in close contact with the United Nations, to work out new solutions, and concludes that "the shaping of our common future is much too important to be left to governments and experts alone."

The report itself begins by tracing world relationships and the problems of development over the post-war decades, culminating in the oil crisis of 1973 and the frustrations and deadlocks of north-south negotiations (Chapters 1 and 2). "Current trends point to a sombre future for the world economy and international relations. A painful outlook for the poorer countries with no end to poverty and hunger, continuing world stagnation combined with inflation, international monetary disorder, mounting debts and deficits, protectionism, major tensions between countries competing for energy, food and raw materials, growing world population and more unemployment in north and south, increasing threats to the environment and the international commons through deforestation and desertification, overfishing and overgrazing, and the pollution of air and water. And overshadowing everything is the menacing arms race." These trends not only could continue, but could even worsen. Nevertheless, they are not inevitable.

The report analyses the growing mutual interest in change that now exists between north and south, whether in removing the root causes of mass poverty in trade or commodity agreements, in oil and mineral exploration, or in facilitating the recycling of surplus funds. "We are convinced that there are gains for all in the new order of international economic relations" (Chapter 3). There is both a moral and a practical case for reforming the world economy and transferring resources to the benefit of developing countries. Human solidarity and compassion for the ex-

tremes of suffering in poor countries, and the hard-headed interests of the rich countries, point in very similar directions.

Surveying the fundamental problems of poverty (Chapter 4), the report insists that the poorest countries must receive special attention to help them to help themselves, and it calls for a major initiative to assist them with basic investments in economic infrastructure, which would cost at least \$4 billion a year above current aid. Part of that would be for agriculture, whose total additional aid needs would be about \$8 billion annually to step up food production in poor countries (Chapter 5). A program for international food security and emergency food aid is also called for. Without these measures, the report foresees widespread hardship and inflation in food prices in all countries. Abolishing hunger requires incomes for the poor as well as improved food supplies. But "the world has the capacity to achieve such a goal. It is imperative that it does so."

The report warns that "the present staggering growth of world population will continue for some time" (Chapter 6), which will give added urgency to the fight against poverty and starvation. The Commission does not believe that family planning alone curbs population growth—it must be underpinned by broadly based development. Population movements are also discussed: the report calls for adequate responses to the social and economic problems caused by labor migration and by refugees. It also examines the relationship between population, industrial growth, the environment, and the need for global cooperation to preserve the ecosystem.

On disarmament and development, the report aims to increase awareness of the dangers and the crippling cost of the arms race, and the importance to everyone's security of non-military threats to survival. "More arms are not making mankind safer, only poorer" (Chapter 7).

In addition to international reforms, the Commission addresses the responsibilities of the developing countries in ensuring that the benefits of development are equitably spread and, in particular, that they reach the poor (Chapter 8). While stressing that national reforms are not a precondition for the international reforms called for in the report, the Commission observes that, "in the vast majority of developing countries much more could be done to achieve equitable development" and calls on the Third World to undertake the necessary reforms.

A new emphasis in the report lies in the measures proposed to enable the producing countries both to obtain a bigger share of the final sale value of commodities by playing a larger part in processing and marketing and to achieve more stability in prices and earnings (Chapter 9). "Commodities are the south's lifeblood, especially for the poorer countries, and to know what damage is done by the vagaries of the market is to understand why they feel so passionately about them." The report supports the Common Fund, which should be provided with adequate resources to stabilize prices at remunerative levels, finance national stocking outside commodity agreements, and carry out development and diversification through its "second window." A complementary role is seen for individual commodity agreements and compensatory finance, both of which require greater efforts and commitments by the parties concerned. A case is made for a new financing facility for mineral exploration to help overcome existing problems "on the basis of a global responsibility for investment in mineral development."

The report considers the central role of energy and, in the immediate future, of oil in the world economy and international relations. It describes the disparities of energy use in the world: the ratio of per capita energy consumption in industrialized countries compared to that of middle-income and low-income countries is 100:10:1. The report accepts that oil prices will have to rise in real terms, but states they should do so predictably and gradually. It emphasizes the need for an international energy strategy to balance supply and demand in a context of stringent conservation, to develop new energy sources, and to ensure in particular that the needs of poor countries are met. It underlines "how essential it is that . . . the world's energy problems be solved by peaceful means" (Chapter 10).

The report argues that the industrialization of the Third World need not pose a threat to the north, whose employment gains and losses in trade with the south are well-balanced—though it recognizes that, for particular sectors, "adjustment creates difficult political and social problems which call for sensitive and imaginative handling by governments" (Chapter 11). The expansion of trade must play a major part in world economic recovery, and the report takes a strong stand against protectionism—calling for it to be rolled back. It speaks of the need for positive, anticipatory adjustment measures, for the resumption of negotiations on "safeguard" mechanisms, for the inclusion of more trade issues under international rules and surveillance, and, over the longer run, for moving toward a more comprehensive trade

institution combining the functions of the U.N. Conference on Trade and Development (UNCTAD) and the General Agreement on Tariffs and Trade (GATT).

The report makes constructive proposals to reconcile the interests of all parties over the issues of multinational or transnational corporations and the sharing of technology (Chapter 12). It sees a great mutuality of interest in the creation of a regime under which corporations can contribute more to development. At present, relationships are too often prone to mutual suspicion and mistrust, which inhibit investment and cause conflicts and even political tensions over existing operations. The proposed regime would include a framework—as far as possible a contractual one—imposing obligations on all parties concerning such matters as the avoidance of restrictive practices, the treatment of the corporations in both home and host countries, legislation to regulate various activities of the corporations (including transfer pricing), and cooperation over tax policies and fiscal and other incentives. "Fair contracts are more stable" is one of the main themes. The discussion also covers the transfer of technology in considerable detail. The important role of the corporations "in world production, processing and trade, as well as other developments such as their increasing technology cooperation with several Eastern countries, make the transnationals issue today one of global rather than solely north-south concern."

One of the key problems in the world economy is the disarray of the international monetary system. The report recommends a system to be established on the basis of more stable exchange rates, greater symmetry in the burden of adjustment between surplus and deficit countries, and an orderly expansion of world liquidity. A central part would be played by special drawing rights (SDRs) becoming the principal reserve asset. These should be created in a non-inflationary manner and solely in response to world liquidity needs. But the report also recommends that their allocations should favor developing countries, especially those with heavy adjustment burdens—the so-called "SDR-link." Gold from the International Monetary Fund (IMF) should be used to assist lending to the Third World. The report calls for greater responsiveness by the IMF to the adjustment problems of developing countries, which should be seen in a context of maintaining long-term social and economic development and not be subject to inappropriate or excessive regulations (Chapter 13).

The report identifies a number of unmet needs in development finance and deficiencies both in the quantity and types of available assistance and in the relationships between lenders and borrowers. The poorer countries need considerably higher levels of concessional assistance; the better-off need to be able to continue to borrow, mainly at market terms, but with improved maturities, which will facilitate their debt management. In both groups of countries, deficits and indebtedness have been growing at disquieting rates, and urgent measures are needed if a serious breakdown is to be avoided. It is especially important to lenders and borrowers and to the health of the world economy to find ways of recycling the new surplus oil revenues. The main missing types of finance are "program lending" (i.e., lending not tied to specific investment projects), export finance, and finance for economic integration schemes and for commodity stabilization (Chapter 14).

Against this background, the report put forward "a new approach to development finance" (Chapter 15). Its main features are a more universal and automatic system of international burden-sharing. Universal in the sense of calling for contributions not only from the industrialized Western countries but from Eastern countries and developing countries—excepting the poorest. Automatic in the sense of an increasingly higher proportion of assistance coming from sources not subject to frequent budgetary appropriations. Contributions on a sliding scale related to national income could be one element in a system of "international taxation." Levies on international trade on military expenditure or arms exports, and on the mining of sea-bed minerals could be other elements.

Another important feature of the "new approach" is institutional reform, including greater regionalization of assistance through decentralization of the World Bank's operations and strengthening of the regional development banks; greater participation of developing countries in the control and management of multilateral institutions, including the IMF; and consideration of a new institution—a World Development Fund with universal membership and fully shared management and control—to complement the World Bank and the IMF; to undertake some of the missing types of lending, especially program lending, and ultimately to serve as a channel for revenues raised on a universal and automatic basis.

The report calls for a large-scale transfer of resources on concessional and on market terms to the developing countries; some \$50-\$60 billion annually above current levels could be flowing through public channels by 1985. The money would come from a variety of sources: increased share-capital and borrowing powers for

the multilateral development banks (at least a doubling in the case of the World Bank); SDR allocations; use of IMF gold; and measures to give developing countries greater access to market borrowing, including the intermediation by public institutions of surplus liquidity from oil revenues and other sources. The report also recommends that the industrialized countries meet the 0.7 per cent of GNP target for official aid by 1985 and a target of 1 per cent by the end of the century to provide more concessional funds for the poorer countries. In the longer run, more resources should also become available from the universal contributions and automatic revenues already mentioned.

In Chapter 16, the report considers international organizations and negotiations. It suggests a high level and continuing monitoring body to pursue the difficult but essential task of streamlining the U.N. system and associated agencies, as part of the measures needed "to avoid duplication of tasks and wasteful overlapping" and to increase efficiency. It also suggests possible improvements to the procedures of north-south negotiations. And it calls for the selective use of summits "to advance the cause of consensus and change."

In its final chapter, the report discusses a "program of priorities." It sets out the main tasks for the 1980s and 1990s to remedy the defects of the international economy and its institutions, to improve the conditions of trade in commodities and manufactures, and to reform the structure of development finance and the monetary system. But "the world cannot wait for the longer term measures," says the Commission, and the report proposes an emergency program for 1980-1985. "At the beginning of the 1980s, the world community faces much greater dangers than at any time since the Second World War. It is clear that the world economy is now functioning so badly that it damages both the immediate and the longer-run interests of all nations."

The "emergency program" has four parts: a large-scale transfer of resources to developing countries; an international energy strategy; a global food program; and a start on some major reforms in the international economic system.

The transfers of resources, the food program, and the reforms of the economic system comprise elements of the measures described above, essentially those which can be acted on relatively soon. The energy strategy aims at an accommodation between oil producers and consumers to ensure four things: regular supplies of oil, rigorous conservation, more predictable and gradual oil-price increases in real terms, and joint development of alternative and renewable energy sources.

The Commission emphasizes that the emergency program is not a substitute for the priority reforms it recommends and must in its implementation be consistent with them. It sees the emergency program as the basis of an international agreement whose components are of equal importance and related to each other. The program carries obligations for all parties and brings benefits to all. "Its implementation will do much to create confidence, stimulate trade and investment, and improve the prospects for growth in the world economy. Conducted in partnership between north and south, it would amount to a major step toward a new international order, and the development of a true world community."

Finally, the report calls for a summit of world leaders from both industrialized and developing countries. It could not commit those not present, but it could change the international climate and enlarge the prospects for global agreement, which the report envisages being negotiated within the U.N. system. The summit should, in the Commission's view, concentrate on the emergency program, without detracting from longer-term measures, to turn around the world economy and give a lead to the negotiating process. It is now dramatically urgent for the world to take action. "The search for solutions is not an act of benevolence but a condition of mutual survival."

THE COMMISSION AND ITS WORK

An annex to the report, following the summary of recommendations, describes the Commission's composition, its staff, its work program of meetings in a variety of countries, and the extensive contacts with experts, officials, and leaders from numerous countries, including the Eastern countries. It also describes the Commission's financing. A number of governments—Denmark, Finland, India, Japan, Republic of Korea, the Netherlands, Norway, Saudi Arabia, Sweden, the United Kingdom—gave substantial untied contributions. Assistance also came from regional organizations and funds, such as the Commission of the European Communities and the OPEC Special Fund, and from a number of foundations in north America and Europe. Governments in several countries bore the costs of visits by the Commission and its staff, and the Swiss government bore the costs of the Secretariat's offices in Geneva.

STATEMENT OF RT. HON. EDWARD HEATH, FORMER PRIME MINISTER OF GREAT BRITAIN, AND MEMBER, INDEPENDENT COMMISSION ON INTERNATIONAL DEVELOPMENT ISSUES

Mr. HEATH. Thank you, Mr. Chairman. I would like to say first how honored I feel, that I should be invited to express my views to you today at this meeting, and how grateful I am to you for the welcome that you have just given me.

As you have a summary of the report, and many of you have already read the full report, perhaps I would best help this subcommittee by giving some of my personal impressions of what the Commission has achieved, and what is now required as far as recommendations are concerned.

The first thing I would like to say is this: We started, as a Commission, by looking at the individual problems of the north and south. The reason we did this was that the conferences over the past 15 years have all failed to achieve very much.

This was the reason why the Commission was instituted at the suggestion of Mr. McNamara. I, myself, believe that there were two reasons why these conferences have failed. The first is that they have, in some cases, tried to cover everything across the board and reach conclusions about it.

This was true of the UNCTAD conferences. It was true of the Paris Conference that went on for 2 years. The other type of conference has been a single subject conference. In these cases, the north has sometimes seen an advantage that the south did not, and in others, the south has seen an advantage that the north did not. And so they failed.

I think there was an important lesson for us here about the means we ought to use in an attempt to reconcile the differences and implement the proposals which are put forward in the report. We have to find a way in which there can be a balance between north and south in what is agreed.

The second thing which was remarkable about the Commission is that when we first started meeting, we had very strong, and at times, bitter arguments. This was not surprising in a Commission which consisted of 18 people, 10 from the south and 8 from the north, from 17 different countries and from 5 different continents.

What was interesting was that as we went on in our 2-year discussion, we found ourselves forced into agreement. We finished with a unanimous report that, I think, is very remarkable in the circumstances of the composition of the Commission.

What forced us into that unanimity? The plain fact is that it was circumstances, because having argued all the subjects through, we were forced to the conclusion that there is no other answer to the economic and political problems of the world today except by these measures which will deal with north and south alike.

The third characteristic of the report is, whichever aspect you look at, the north and the south are irrevocably intertwined. I heard the expression used after the meeting of the nine last week-end, "We, in the north, have our problems, and in the south, they have their problems. So we better get on with it."

That is not, in fact, the position of the world today. The problems are inextricably intertwined and must be solved together.

BASES FOR ACTION

Now, let us look at the different aspects of the north and the south, and where the resolutions are required. The first one is that in the north, we have 18 million unemployed. It will be 2 million more by Christmas, 20 million unemployed. We have spare industrial capacity worth between \$250 billion and \$450 billion. That is not a happy situation for the north. It is deteriorating rapidly. The south, on the other hand, has an enormous demand for the things which we can produce, either by our industrial capacity or by our labor. It is not an effective demand because it does not have the financial resources to pay for what it wants. That is the first equation that has to be put together.

The second thing is, What is the basis by which this action can be brought about? Directly after the Second World War, at the end of the forties, a great deal was done because of idealism. Idealism still exists. It exists in our universities. It exists on both sides of the Atlantic. But one has to accept that it has, to a great degree, evaporated, compared to what it was in the forties.

So, as we want public opinion to support us in carrying through the measures we have proposed, it is not a very sound basis for formulating policy.

The second basis was suggested by the south, who say "We demand all of this as a right. You, in Europe, were the colonial powers. What is going wrong today is the result of colonialism. Therefore, we demand that you do these things by right."

To which my generation replies to our friends from the south, "I am now over 60. All we have ever done is not colonize people, but to liberate them whether they liked it or not." The last in the succession was Rhodesia. I cannot accept responsibility for any of this; neither can any of the generations who follows me. I am not prepared to say that these things are going to be done automatically as a right to suit the south.

We then had to find a third basis for action. That is, a mutual interest which exists between both north and south in carrying through accepted policies. This mutual interest would not balance on each individual item. To try to do that is to ask for failure.

If one can take a package, then the mutual interest can balance across that front. It will not always be an exact balance for the north or the south. One may get more than the other, but it is the most secure basis for formulating policy.

PROBLEMS OF THE NORTH

Very well, then. Now, how do we sustain this mutual interest. Let's look again at the problems of the north. We have five problems. We have high inflation, high unemployment, high interest rates, no growth, and a constant rise in the price of the basic raw material for all industry, which is oil. We've never had this situation before in economic history.

We have had booms; we have had slumps. We have never had a situation in which the price of the basic raw material continued inevitably to rise. What we have to face is that this is going to continue.

Those economists who believed if you push the world into a deep enough recession, the price of oil will fall are, in my judgment, wrong. Why?

Because oil is not a normal commodity. It is a unique commodity. The people who have got it do not want to produce it. They want to keep it under the ground.

British ministers are standing up at Parliament saying, "We are going to conserve our oil in the north Sea."

The result is that if at any time there appears to be a surplus which would bring about a reduction in price, then production will be cut back because people, particularly in the gulf, do not want to produce it. They are under great pressure not to produce it.

This, therefore, is a permanent inflationary factor as far as the world economy is concerned. The consequences of this to the north and south are very great indeed. Again, they are interlocking.

PROBLEMS OF THE SOUTH

If one looks at the problems of the south, we know the general problems. There is a problem, first of all, of commodities. In the Brandt Commission, we naturally looked at the proposals for the Common Fund. There should be 18 commodity agreements. We did not feel that this was practical.

The difficulties of formulating commodity agreements are very great. What we did do was to put more emphasis on helping the south by processing and marketing. This is, of course, controversial as well.

If one takes the specific example of oil again, to put in the petrochemical plants in the Middle East where the oil wells are, makes world economic sense. Of course, it is going to upset people in Scotland who have the petrochemical plants, and those who are in Rotterdam, who have the petrochemical plants, and rely for their livelihood on the refineries.

It is a change which is going to take place anyhow. So, we have to recognize this. We can help industrially by the production of the petrochemical plants.

In marketing, we have the expertise that would help the south sell the commodities and the industrial products to a better and greater extent than they are doing at the moment. When it comes to industrial access, again, one has sympathy when the south says, "You urge us to stand on our own feet. We buy the equipment from you with which we produce the goods. Protectionist forces prevent us from selling them in your countries."

Very well, then we have to point out to them the difficulties in a time of recession of withstanding protectionist forces, let alone opening the markets still wider.

The third problem is transnationals. I believe the relationship with the transnationals is better than the politicians are prepared to admit. Again, there is a very powerful case for having a perfectly clear and strong code of behavior for both transnationals and the governments of the countries in which they operate.

We can point to examples where this is already done, in Malaysia for example, very successfully. The transnationals have not reached the stage, according to my information from the Interna-

tional Chambers of Commerce members, of being prepared to accept a code of that kind.

What the other countries feel is that they do not have the power or the expertise to negotiate on any terms of parity with the giants of the north, Shell, or BP, or ITT, or any other great transnational.

We, therefore, propose that there should be this group, which should have the expertise and can advise them. It is in our mutual interest as well, because if a contract is made which proves in the end to be exploiting the country concerned, then it gets repudiated. The investment of the transnational is in danger.

So, we both have our mutual interests on that particular point also. Then we come to the institutional changes, which the south want in both the IMF and the World Bank. Of course, they've each made some changes in the past, particularly in 1979.

The south still feels that these were international organizations created in the image of the British and the Americans after the Second World War because we lost the war.

They do not feel that they represent the balance of power as it is in the world today. The changes are required, therefore, in that respect. It may be that the international fund for agricultural development can provide the new path in which there is one-third from the north, one-third from OPEC, and one-third from non-OPEC developing countries; that gives a fresh balance of power as far as the international organizations are concerned.

ADDITIONAL PROBLEM OF INDEBTEDNESS

So, those are four of the problems which face them. Now, there is the fifth, which is the urgent one. That is the question of their indebtedness. This has become particularly burdensome for them because of two factors. The continuing rise in the price of oil, and the very high interest rates running at the moment.

They could not have been foreseen by the south, any more than the north could have foreseen them. So, I find it useless for the cynics to say that they ought to learn how to run their own affairs. It is a position which nobody could have foreseen. We have to understand the burden which is being put upon them.

This is urgent because action will have to be taken, in my judgment, within the next 12 months if we are to avoid serious trouble for the north from the indebtedness of the south. The fact is that with the least developed countries, we could take action to deal with this that would not be greatly burdensome or expensive for us.

We, in Britain, have wiped out the debt of the 19 least developed countries and turned it into grants. Sweden has done it for 29. A few other countries have not done anything about it, but it is perfectly feasible; and the cost to change it into grants is not very great because it is interest payments that are affected.

Then we come to a much more important area, which is that of the medium-developed countries, which do have very heavy indebtedness. Brazil is a very interesting example of this. The indebtedness of Brazil at the moment is \$50 billion American. Of that, about \$20 billion comes from the commercial banking system in the north.

The cost of oil and the cost of servicing the debt last year for Brazil was more than all its exports put together. So, anything else which it wanted to import, it could only do by increasing its indebtedness, which it did.

The situation in 1980 will become worse because of higher oil prices and higher interest rates. Last year, their exports were \$14 billion American. In 1980, if they are to meet the costs of the oil and the servicing it will have to be \$20 billion American.

How does one country increase its exports by 50 percent in 1 year? We know the problems of increasing it by 5 or 6 percent a year, but this is typical of the problem which faces this range of countries who have now become reasonably developed—Brazil, Mexico, south Korea and others. This is a problem, again, in which there is a mutual interest. If a way cannot be found to deal with the indebtedness of these countries, then default will affect the whole of the Western Banking System.

I think I have the figures here for the American aspect of this, which is of course, you know, very considerable. The U.S. bank claims on the least developed countries amounted to \$74 billion in July 1979, which is 35 percent of total U.S. bank claims on foreign borrowers.

It is a high proportion. The U.S. banks account for 60 percent of the total commercial bank claims on the nonoil middle-income countries, such as Brazil, which I have mentioned. So this again is a considerable proportion.

Two things follow from this. One, that if there is any question of default, the banking system is going to be greatly affected. Second, that one can understand how the commercial banks in the north feel now that they have extended themselves as far as they can with this particular sort of lending to the developing world.

From that follow two things: One, what is the developing world in the south going to do about future investment? Second, how are the OPEC surpluses going to be invested if the commercial banking system feels that it has reached its limit?

Now, those again are two urgent crucial points which have to be settled in the comparatively short time of a year. We in the Brandt Commission put forward a 5-year program as part of a 20-year program. We had not realized at the end of 1979 exactly how acute the problem of the south's indebtedness and its consequences for the north really were.

Now we recognize that. I think it is becoming more widely recognized. At the same time, it is becoming more serious. When we finished the report, the deficits of the developing countries for 1980 were estimated at \$60 billion American.

Now, 5 months later, their estimates are \$72 billion American. The question is how is that indebtedness going to be met?

ROLE OF SURPLUS COUNTRIES

We, in our recommendations, then turn to the question of the surplus countries. We deliberately used that general phrase so we couldn't be said to be discriminating against any particular group of countries that had surpluses, because the plain fact is now the north does not have any surpluses.

The surplus of Japan has disappeared. The surplus of Germany has disappeared. We, in Britain, do not have any surplus despite the oil. The north of 1980 will be in deficit to an extent now estimated at \$50 billion.

This, therefore, makes it a difficult proposition for the north to deal with the deficits of the south. The real answer is in the OPEC countries who are going to have surpluses in 1980, which before the increases were estimated at \$120 billion, and are more likely to be \$150 billion.

So, we then come to the question: How can all these interlocking problems be sorted out together? We have to take both a short-term and a long-term view of this. As I have said, the commercial banks feel they have extended themselves as far as they can go.

The OPEC countries find that they have lost heavily on the use of their surpluses in the last 5 years because of the depreciation of the dollar. They also find now that they do not know how to dispose of the surpluses because the commercial banking system which took them is less and less prepared to do so. So this is the first problem we have to deal with.

It is in the interest of the north, as well as the south, that we should do so. We in the north want two things. We want as far as possible a guarantee of oil supplies for the next 20 years. Why 20 years?

Because in trying to find alternative sources of energy from coal, by the time you sink a deep pit, when you get coal to the top, it is 10 years. Generating nuclear power, by the time you build a plant, takes 15 years. As far as the fast breeder reactors are concerned, we spent 20 years on it. France has also spent 20 years on it. It will probably be another 20 years until we get any power out of it, and that turns out to be the turn of the century.

Second, we would like to have an indication of what present arrangements are going to be during that period. What OPEC wants are two things. First, a means of investing the surpluses, which it's got. Second, getting some form of security for those investments so they do not lose a large portion of it again.

If we both have two interests, there ought to be a chance of negotiation in a dialog. Of course it won't be easy; it will be difficult. The proposals which we have put forward, and those I have put forward in particular, are of course controversial.

If they want security for their investment, then maybe we've got to give them some sort of indexed bond which would deal with this problem. This will arouse controversy. People will say, "Why do these people have the indexes when the rest of us don't?"

Then you have to face the problem, "Well, if you want this sort of arrangement, in order to get our oil supplies and arrangements for pricing, this is what we have to consider."

Or oil people will say, "How much can we rely on an agreement of this kind? It may be broken."

Of course, if it's broken—the agreement on the other side is broken and the security of their investments is then affected. So, you can create a balance between the two sides which, when understood, can be fully justified.

As far as future investment is concerned, it is required particularly in the production of food and in the search for new sources of

energy. If the surpluses can be put into the south for those purposes, then it will undoubtedly help to solve some of the problems in the longer term.

What is more, from the point of view of their industrial development, these countries will come to the north for the plant and machinery which they want. It will therefore start to reinvigorate the economies of the north and start to deal with the problem of the excess capacity and unemployment, and also jobs.

This is what is required. We have now reached a stage where, in Brandt, we started looking at ways in which we look at problems. We finished. We are making recommendations which are, in fact, aimed at recreating the world's economy. This is the true significance of Brandt, that it led to this final conclusion that is required today.

MARSHALING PUBLIC OPINION

To do this, of course, is controversial and difficult. We came to the conclusion that it could only be brought about if world leaders were prepared to decide on the action that they would take.

If it was left to general conferences at the level of deputy ministers we would make no further progress than we have made in the past.

To do this, we need public opinion. How do we persuade public opinion to support us? Again, we have to show them, first of all, what the problems are and second, where the mutual interest lies.

What are the problems I find in my country and in Europe? They are little appreciated. In the next 20 years, the world's population is going to increase by 2 billion. We are 4.3 at the moment. We will be 6.3 and probably 6.5 by the year 2000.

There is nothing that we can do about it because 16 percent of the population of the developing world is 18 or under. They are going to have their families. The best that we could hope is that in the next century, it will be limited to 8 billion.

When we add 2 billion, we are, in fact, increasing the world's population by 50 percent in 20 years. To put it into context, at the beginning of this century, in the year 1900, there weren't even 2 billion in the world.

We are now going to add this to the world population in 20 years. The consequences of this are an enormous demand for food, and an enormous demand for raw materials, and an enormous demand for energy. Neither the North nor the South can separate itself from the consequences of this.

They cannot opt out. When it comes to food, you may say that the European community, or the United States, could make itself largely self-supporting. But we could not isolate ourselves from the inflationary consequences of rising food prices in the rest of the world.

In the last year we have seen grain prices alone increase by 25 percent at a time of recession. Again, in raw materials, we in Europe, except for coal and North Sea oil, depend on the rest of the world for all of our materials. So, unless they are going to be produced in the next 20 years, we, like other people, are going to grind to a standstill.

We know the problems of the shortages of energy already. Think of what it is going to be with a population increase of 50 percent.

The average consumption in the world at the moment is 2 kilowatts, which ranges from 0.2 for the least developed to 6 for our own countries. By the year 2000, the average world per capita demand will be 6. That is an increase of 300 percent.

How is it going to be met? I think if one brings this home to the public, then they can see what the problems are and that action has to be taken, and taken urgently.

There is no point in waiting until the food shortages arrive across the poverty belts of Africa or India. One has to take action to avoid this. That really does mean specific policies enforced by heads of government, in the North in particular, because we have the power to do it.

If we are going to change the institutions, for example, to accommodate the South, it is mainly the North that has to do it. Is OPEC prepared to put its money into the existing institutions in our present form? If not, we do not get the investment we want, or help with the indebtedness. So, we have to be prepared to adjust in this respect to needs which they're expressing, and which can be, I think, justified.

So, again, there is an interlinking of all these problems. When one has shown the public what the general problems are, then we have a mutual interest.

It is fairly interesting to look at the U.S. trade position, because you had in 1977 with the non-oil developing countries a trade surplus of \$14 billion, the last figures available.

If the South is going to run down, that surplus is going to disappear. It is of direct, mutual interest to the United States to maintain the economic structure of the South.

One out of every 20 jobs in the United States is used to make things that go to the South. If the South collapses, you have an additional 5 percent unemployment. That, again, is of mutual interest to people in the North with the South.

From the point of view of inflation, the goods that you buy from the South are 16.3 percent cheaper than those you buy from the North. There is hardly any difference in the price from the North, about 0.4 percent.

Mr. BINGHAM. I am sorry to interrupt at this point, but we have a vote on the House floor. We will be back in about 10 minutes.

[Whereupon a brief recess was taken.]

Mr. BINGHAM. The subcommittee will resume. I'm sorry for the interruption, Mr. Heath. We hope there will not be any more votes for a while. Go ahead, sir.

MUTUAL INTERESTS

Mr. HEATH. Thank you, Mr. Chairman. Perhaps I should begin to bring my remarks to a close. I was just dealing with the mutual interest the United States has in the prosperity of the South.

I mentioned the benefit which comes to the consumer from being able to buy goods from the South. I am told that overall the U.S. consumers save more than \$2 billion a year as a direct result of their imports from the South.

The total trade figures for 1978 are also interesting because 26 percent of the total U.S. exports of merchandise went to the non-

OPEC LDC's. If you add the OPEC countries, nearly 40 percent of the U.S. exports went to the South.

So, to the extent that the South suffers, the United States and its trade and its employment will suffer also. A general figure for the North in this respect shows our mutual interest. If, as a result of oil prices, the South had decided to cut back on imports in order to pay for oil, we would have 3 million more unemployed today than we already have in the North.

So, that again is a direct mutual interest. In fact, they did not cut back on imports. They increased their debt. Obviously there is going to be a limit now on the extent to which they can do that. So, those are some of the ways in which we are very closely interlocked.

Perhaps I could also emphasize the extent to which the United States depends on the non-OPEC LDC's for its raw materials. From the last figures available in 1976, 82 percent of tin, 56 percent of aluminum, and virtually 10 percent of rubber and coffee came from the South.

Again, there is a mutual interest in continuing to assure that the South can produce these goods which are required by the United States, and by the whole of Europe.

I would just like to mention one final link, or mutual interest, that we have. This is the East-West link to the North-South problem. I only want to touch on it lightly. As far as East-West problems are concerned, we want as much of the South as possible to look to us for a way of life which insures their freedom, and to feel that we are prepared to help them improve their standard of living.

If we don't, then we must not be surprised if they decide to look elsewhere—toward the East rather than toward the West.

I do not believe that we can leave this until the crisis occurs. As far as Afghanistan was concerned, we did very little, indeed, to help that country develop. I think we British provided 1 billion pounds. That is a minute sum compared to the requirements of any country for development.

In the Caribbean today, on the doorstep of the United States, a country finds it truly difficult to make it as a member of the British Commonwealth, is in extreme difficulty from the point of view of its finance and development with 35 percent unemployment and difficult internal circumstances. We cannot wait until a left-wing movement swings it toward Cuba. We ought to be helping Jamaica to the greatest possible extent in its economic and financial difficulties.

IMPLEMENTING BRANDT PROPOSALS

These are very practical and urgent problems in the East-West link to the North-South development question. So, I come to the last point I want to deal with, which is a question I'm always asked. How do we get these proposals implemented?

This is where, if I may say so, I have no doubt your committee is very influential as far as Congress is concerned, and as far as the administration is concerned.

Each of us in our own countries has to persuade our Governments to act. I took the liberty last week of sending a letter to each

of the seven heads of government who have been meeting in Venice this weekend, sending our concrete proposals to which they could agree now, and would not be necessarily burdensome on the countries involved, asking them to reach agreement at heads of government level.

I would be happy to hand a copy of this to your clerk, if you would like to have this, Mr. Chairman. I feel, again, that it is necessary for the North to take the initiative. I hope that the OPEC countries would then see that we mean business and would respond.

We would then bring in some of the developing countries to insure that their interests are properly protected. I am sometimes asked about the Soviet Union, about China, as neither wished to be represented on the Brandt Commission. The Soviet Union, I think, is unlikely to change its position of devoting a minute proportion of its GNP, 0.04 percent to development, with political strings attached.

China, on the other hand, has shown great interest, and as we know, has recently joined the IMF and the World Bank. They, of course, do have very great resources for development, but they are also, for political reasons, in a particularly strong position to get the credit, which they want.

I think everyone will be grateful to your committee if you are able to help in securing the implementation for those proposals in the Brandt Commission report with which you agree. Thank you very much, indeed, for listening so patiently.

Mr. BINGHAM. Thank you, Mr. Heath, for an extraordinarily lucid and provocative presentation. First of all, let me say that we would be glad to include in the record your letter to the heads of state and the accompanying paper.

[The documents referred to follow:]



From: The Rt. Hon. Edward Heath, M.B.E. M.P.

HOUSE OF COMMONS

12 June 1980

*Mr. President.
I hope to take the liberty of offering
you some personal thoughts.*

No substantial progress on the urgent common problems faced by the developed and developing countries will be made without a clear commitment at the highest political levels to over-ride the technical difficulties involved.

Given this commitment, there are a number of initiatives which, I believe, it is now politically and technically feasible to embark upon, and then to sustain.

I have set out a list of fourteen such initiatives in the attached paper. A summary of the paper is also included for your convenience.

I am writing to ask you to give your personal backing to at least one or two of these initiatives at the Summit of the Seven in Venice.

If I can be of any further help to you, please do not hesitate to let me know.

Yours faithfully,

Edward Heath

Edward Heath

Mr Jimmy Carter
President of the United States of America

North-South : A 14-point action programme
for the immediate future

The further the world economy slides into recession, the more bewildering becomes the array of problems by which the developing countries are confronted. The very great interdependence of these problems makes the task of finding and implementing solutions to them particularly daunting. If real progress is to be made in North-South cooperation, it is vital that, somehow, we should be able to pluck out from the cat's cradle of urgent economic problems faced by the developing countries those which most vitally affect the interests of the industrialised countries and which are most amenable to immediate assistance by them.

THREE MAIN PROBLEM-AREAS

There are, I believe, three such problem-areas in which it would be feasible - both politically and technically - for the industrialised countries to commit themselves to early action. The first is the serious international payments situation. The second concerns the international oil situation. The third is the deteriorating food situation in the developing world. Why are these problems so urgent and how do they affect the industrialised countries ?

First, the international payments situation has undergone its second major upheaval in six years. According to IMF estimates, in 1980 the large oil-exporting countries will have a balance of payments surplus on current account of around \$115 billion. In 1979 the figure was \$68 billion. This massive redirection of capital to the oil-exporting countries will have extremely severe consequences for the non-oil-producing developing countries. Their oil bill will double, from \$30 billion in 1978 to \$60 billion in 1980. At the same time, their export earnings will be hit by the damage which rising oil prices inflict on the growth of the industrialised countries. As a result, the non-oil-producing developing countries will have an aggregate deficit on their current account of around \$70 billion in 1980 - compared with \$55 billion in 1979.

This situation raises three main problems, all of which profoundly affect the interests of the West.

The first is the deterioration in the already desperate payments situation of the least developed countries - those that can have little or no recourse to financial markets. These countries may not be of great economic importance to the West. But they are often of vital strategic importance to it. This is true, for example, of Somalia, Bangladesh and Sudan. Like so many other least developed countries in Africa and Asia, their stability is endangered by radical forces whose success is nurtured by economic deprivation and inequality. If these radical forces are given the opportunity to make progress, others like them around the world will also be encouraged. Moderate leaders will conclude that they cannot rely on the West to support them. They will feel insecure and vulnerable to the pressures of hostile forces, both within and outside their countries. For the West to ignore the economic needs of these least developed countries can therefore only undermine its credibility and effectiveness.

The second main problem arising from the current international payments situation is the growing burden of debt servicing in relation to export earnings that has to be borne by the more advanced non-oil-producing developing countries. For example, the debt service ratios of Brazil and Mexico were around 60% in 1979, and are not expected to improve significantly in 1980.

How does the deteriorating payments situation in the more advanced developing countries affect the interests of the West? First, there is the danger - which may become acute within the next eighteen months - that certain debtor countries will default on their commercial loans. This could trigger off a serious crisis in world money markets, which in turn could provoke further instability in the international monetary system.

Second, if nothing is done to help those countries with mounting deficits, they will have no alternative but to cut back on imports and on domestic development programmes. This will reduce still further the economic activity of the developed countries of the West, which send around one-third of their exports to the developing world. And it may accelerate instability and radicalism in precisely those countries which are of vital strategic importance to the West. This danger is present, for example, in Pakistan, Jamaica and Zimbabwe.

The third main problem arising from the current international payments situation is how to recycle the massive and growing surpluses of certain OPEC countries. There are many who believe that the commercial banks will be able to cope with these surpluses just as they coped with those which arose from the first oil shock. I doubt whether this optimism is justified. Quite apart from the unprecedented magnitude of the funds, the problem is very much more difficult than it was after the 1973-74 oil price rises, for at least two reasons. First, the surplus oil producers are finding it increasingly difficult to sustain the extraordinarily rapid modernisation programmes upon which they embarked after 1974, both because of the emergence of numerous economic bottle-necks in their countries and because of the danger of producing unbearable social and political dislocations akin to those experienced by Iran. The result may well be a substantial reduction in their propensity to import from the industrialised countries and very much greater pressure on the commercial and official institutions to find a home for the surpluses.

The second new factor since 1974 is the worsening debt and payments situation - referred to above - in certain non-oil developing countries. This is going to make it very much more difficult for them to engage in another round of massive borrowing; and the commercial banks may be correspondingly reluctant to lend them the necessary funds.

For both these reasons, it follows that if the surpluses of OPEC are to be successfully recycled, it will be necessary to increase the role of official institutions - both national and international - in the recycling process. It is profoundly in the Western interest that this process should be efficiently accomplished, for two main reasons.

First, if the surpluses are not efficiently recycled, the economic situation of the non-oil developing countries will be very grave indeed. I have already referred to the damage which this would do to the economic and strategic interests of the West. (We should not forget that it was only because of the remarkably efficient recycling of the surpluses to the non-oil developing countries after 1974 that they were able to grow as rapidly as they did and that the West was not thrown into a very much more serious recession.)

Second, if the surplus oil producers cannot be provided with greater economic and political incentives to recycle their surpluses, then it will become still more difficult for their leaders to justify before their people the continued production of quantities of oil which are well in excess of their financial requirements. There is therefore an inescapable link between a solution to the problem of recycling and the energy security of the industrialised world.

This leads to the second urgent problem-area in which I believe it is feasible for the industrialised countries to commit themselves to early action. It is the international oil situation. It is now widely accepted that the oil market is likely to remain extremely tight for at least the rest of this decade. This is because the moderate surplus oil producers - notably Saudi Arabia - are no longer able, either politically or technically, to produce the quantities of oil which would enable them to dominate OPEC pricing policy. Indeed, they are under strong pressure - for both economic and political reasons -

to reduce their output. Therefore, the other members of OPEC - many of which need all the money they can earn - are in a stronger position to ensure that the market remains tight and that their incomes remain at least constant by reducing their production whenever demand slackens. This situation could only be avoided if world demand for oil were to drop by an amount which it is wholly unrealistic to expect at present - despite all the efforts of the industrialised countries to reduce their consumption. Thus, the immediate challenge for the industrialised countries must be to lessen the economic and political incentives for the surplus producers to reduce their production of oil. It is in the common interest of developed and developing countries alike that this should be done.

The third urgent problem-area in which early action by the industrialised countries is politically feasible is food and hunger. The world food situation is serious, with indications of declining per capita production and record numbers of malnourished people. According to the recent Report of the US Commission on World Hunger, one out of every eight people in the world is afflicted by some form of malnutrition. This situation affects the industrialised countries in at least two ways. First, it tends to push up world food prices. For example, wheat prices have increased by over 25% during the last twelve months. Second, chronic malnutrition - the major world hunger problem today - inevitably leads to an inefficient use of resources, persistently low productivity and thus low purchasing power. An improvement in nutritional standards could therefore contribute greatly to an upturn in world economic activity as well as being a moral imperative in its own right.

FEASIBLE INITIATIVES BY THE INDUSTRIALISED COUNTRIES

Within these three problem-areas, where might there be scope for initiatives by the industrialised countries in the immediate future ?

I believe that it is necessary to look for initiatives which possess the following characteristics :

- First, they should be highly cost-effective and, if possible, should make minimal demands on national budgets. At a time of severe restrictions on public expenditure in the developed world, it would be unwise to select initiatives which require large outlays of public money.
- Second, they should not require the creation of wholly new institutions in the immediate future. One cannot afford to ignore the deep-seated reluctance in the North to embark on any form of radical institutional innovation.
- Third, where budgetary appropriations are needed, one must try as far as possible to achieve cooperation between the major industrialised countries and the wealthier OPEC countries. If financial costs can be shared in this way, it will be politically less difficult for all countries concerned to raise the necessary funds.

Given these criteria, there are, I believe, at least 14 specific initiatives which it is reasonable to expect the industrialised countries to take, in order to tackle the urgent problems to which I have just referred.

THE INTERNATIONAL PAYMENTS SITUATION

(a) The payments and debt situation of all but the least developed countries

There are three initiatives which it is realistic to expect governments to take over the next year or two :

1. The rules of lending of the IMF should be applied in a way which takes more account of the particular difficulties faced by the individual developing countries. This means, first, that developing countries should be given longer to undertake adjustment programmes; and, second, that these programmes should consider not only prudent demand management but also the conditions required to improve the productive base of the economies in question. This would not require the creation of any new rules; only that those agreed by the IMF Board in March 1979 be interpreted more flexibly. Nor would it make immediate demands on the budgets of the industrialised countries, thus avoiding one of the major political restraints on developed country assistance to the Third World. Moreover, to the extent that a relaxation of conditionality will increase borrowing from the IMF and therefore the eventual need for additional funds, there are mechanisms for raising these funds which do not require large budgetary outlays by the industrialised countries. Two such mechanisms are suggested in points 2. and 3. below.
2. More must be done to attract the surplus funds of the oil producers to the IMF, the World Bank and other international lending institutions.

How can the industrialised countries help to achieve this?

- (i) By agreeing to give the donor oil-producing countries decision-making powers within the IMF and the World Bank which are more closely related to the amount of extra money they place in these institutions. This is probably best done within wholly new facilities, whose voting structures could, for example, be modelled on the precedent of the International Fund for Agricultural Development (where OPEC, the OECD and the non-oil developing countries each

possess one-third of the votes). By contrast, it would probably not be wise to modify existing structures within the IMF and the World Bank in favour of the OPEC countries. This is not a solution which seems to be favoured either by the industrialised countries or, indeed, by the OPEC countries themselves.

- (ii) By pressing the international lending institutions to borrow substantially more money directly from official holders within the OPEC countries themselves. There has so far been considerable reluctance to do this on the part of officials within the international institutions. The technical difficulties involved are important, but they should not be allowed to paralyse all substantial progress.
- (iii) As part of an overall package deal with the oil-producing countries. In exchange for certain commitments by the West - for example, on ways to safeguard the value of the oil producers' surplus assets, on oil import levels, or on the Palestinian problem (see points 6-9 below) - the oil producers would be expected to provide assurances relating not only to oil supplies (and if possible to prices), but also to their financial commitments to the international lending institutions.

By pursuing these objectives, the industrialised countries could help to ensure, first, that the recycling process is conducted efficiently; and second, that a wide range of developing countries (except the least developed, which cannot afford to borrow at anything above IDA rates) can have access to substantially greater sums of money, both

for short-term balance of payments support (via the IMF) and for programme lending to assist longer-term structural adjustment (via the World Bank). Moreover, these objectives could be accomplished at an immediate budgetary cost to the industrialised countries which is small compared with that of raising funds in other ways.

3. The IMF and the World Bank should increase their co-financing activities - both with the commercial banks and with official institutions (such as the OPEC Special Fund or the International Fund for Agricultural Development).

So far, rather little progress has been made in this area. Yet co-financing provides a mechanism for encouraging the productive lending of public and private funds in the difficult period ahead - and therefore for facilitating the recycling of the OPEC surpluses - which is financially and politically inexpensive for the industrialised countries. It is therefore particularly important for the IMF and the World Bank to undertake more co-financing with the commercial banks, since the latter will continue to be the medium through which the bulk of the world's surplus funds is channelled.

(b) The least developed countries

4. The borrowing capacity of the least developed countries is so small that their needs can only be met by direct grants (especially for short-term balance of payments problems) and by highly concessional loans (especially for promoting their longer-term development). This will inevitably make significant demands on the budgets of the industrialised countries. But these could be minimised in the following ways :

- (i) In the area of balance of payments support, the industrialised countries could, in the immediate future, commit themselves to reversing only the deterioration in the positions of the least developed countries. Over the last two years this has been relatively modest, amounting to less than \$4 billion. (This figure embraces all the low income countries - including those, such as India, which cannot be described as 'least developed'.)
- (ii) The wealthier OPEC countries could be invited to share this financial burden - for example, along the lines of the recent Iraqi proposal.
- (iii) In the area of longer-term development assistance, the industrialised countries should indicate their willingness to increase the availability of highly concessionary loans to the least developed countries (both through the IDA and through their bilateral aid programmes). Since the loan capital itself could be obtained directly from the surplus oil producers or raised on the commercial market, the budgetary expense to the industrialised countries would amount simply to financing the cost of lending the money at less than full market rates. And this cost, in turn, could be reduced if the oil producers were to be invited to share it with the industrialised countries.

THE OIL SUPPLY SITUATION

There are two objectives towards which it might be possible to make progress over the next year. The first is to lessen the

political and economic incentives for the surplus oil producers to reduce their production of oil. The second is to assist the non-oil developing countries in the exploration and development of their indigenous energy resources.

(a) How can the surplus oil producers be enticed to maintain high production rates?

Political incentives

5. The oil-producing countries need to be given decision-making powers within the international lending institutions which are more directly related to their financial contributions to them. As argued in 2 (1), this is probably best done within newly-created facilities in the IMF and the World Bank (such as the projected energy affiliate), rather than by modifying the existing voting structures of these institutions.
6. In addition, substantive and sustained indications by the Western countries that they are determined to make progress on the Palestinian problem would make it rather less difficult for the leaders of the more moderate surplus oil producers to maintain high production rates. There is the danger that the current lack of momentum in the negotiations over Palestinian autonomy could rapidly unsettle the entire Middle East.

Economic incentives

7. The industrialised countries need to take further steps to protect the financial surpluses of the oil producers against exchange risks by providing more extensive facilities for off-market diversification of their reserves. One possibility would be an IMF substitution account. Regrettably, the recent meeting of the Interim Committee at Hamburg failed to agree on this,

despite the political and technical feasibility of doing so. Another possibility would be to offer the surplus producers papers denominated in a strong currency or in a basket of currencies in exchange for their petro-dollars. To a very limited extent, this process has already been set in train (more by accident than by design). It will need to be taken a great deal further in the coming years.

8. In addition, the industrialised countries will need to offer the oil producers bonds which would insulate their surpluses against world inflation, to the extent that the mechanisms proposed in 7 above fail to do so. If possible, these bonds should also provide their holders with a real profit. However, the political difficulties of achieving this are undeniable :

- (i) The double standards involved in providing such a bond solely for the major oil producers - despite their already huge and conspicuous wealth - while all other investors are treated differently would arouse considerable popular resentment in most industrialised countries. To a limited extent, this political problem could be eased by issuing the bonds through an international agency, such as the OECD, since this is less visible to the public than is a national agency.
- (ii) The cost would have to be paid for out of public funds. This would be a most serious problem since the expense of providing these bonds might be very substantial, given high rates of world inflation and the huge surpluses which a few OPEC countries are likely to accumulate.

But the alternative - which domestic opinion will need to understand - is that the pressures on the rulers of the surplus-producing countries to cut back their production of oil will become irresistible. The result would be seriously to harm growth and stability in developed and developing countries alike.

9. Commitments by the industrialised countries to more rigorous oil import targets than those agreed at last year's Tokyo Summit would improve the prospects of negotiating with the oil producers a better balance between the demand for oil and its supply. Without formal undertakings of this sort - which are backed up by credible policies to conserve oil and to develop alternative sources of energy - it will become increasingly difficult for the industrialised countries to obtain agreements over oil supplies with the major producers.
- (b) Exploration of the indigenous energy sources of the non-oil developing countries.
10. The mood in the industrialised countries is sympathetic to the provision of additional financial and technical assistance to non-oil developing countries for the exploration and development of their indigenous energy sources. There is, for example, wide support in the US Congress for this objective. A great deal could be done within the existing international institutions. (Indeed, the World Bank is currently considering a proposal for a new facility specifically for energy exploration.) This would also be an appropriate area for collaboration with the OPEC countries; but here again, they would need to be assured of equitable voting rights if they are to be induced to contribute a substantial proportion of the cost involved.

FOOD

This is an area in which the prospects for progress are relatively promising because

- Much can be done which is highly cost-effective;
- There are direct and immediate ways in which farmers in the industrialised countries can benefit; and
- International food security is widely perceived within at least two industrialised countries - namely the United States and Canada - as an area in which they have a duty to be forthcoming if they are to be true to the principles on which their foreign policies are based.

There are therefore at least four objectives towards which it may now be feasible to make progress :

11. An internationally-coordinated grain reserve system should be established which will assist in stabilising prices. Momentum might be restored to the negotiations on such a system by aiming for a simpler and more flexible arrangement than has so far been discussed.
12. It should be possible for total food aid to be increased beyond the present target of 10 million tons and to be insulated as far as possible from fluctuations in supply. This could be done by means of forward commitments of food aid, made within the framework of the new Food Aid Convention. It would be most rapidly achieved by untying it from the negotiations for an International Wheat Agreement.

13. Food production within developing countries should be encouraged by a major initiative on the part of the industrialised countries to increase the amount of (appropriate) fertiliser aid to the Third World. We should consider including in any such aid agreement undertakings by the recipient governments to ensure that the fertilisers are distributed to those farmers who can use them most efficiently (particularly small farmers). The prospect of substantial spare capacity in Western fertiliser industries makes this a particularly good time for such an initiative. And since the OPEC countries would have a considerable interest in it, it should be possible to reach an agreement for sharing the financial cost involved with them.
14. More research into methods of improving agriculture in the developing world needs to be promoted by the industrialised countries - again, with a financial contribution from the oil producers if possible. Here, a great deal could be achieved at minimal expense. Basic agricultural research - such as into water management or into the development of "poor men's crops" (like millet and root crops) - not only serves the interests of a large number of developing countries, but can also produce economic returns which are both substantial and rapid.

PROTECTIONISM

I have not mentioned in the above list of specific initiatives the urgent problem of growing protectionism in the industrialised countries against manufactured imports from the Third World. This is because I frankly doubt whether anything beyond rhetorical commitments to dismantle these barriers will emerge in the immediate future. This is particularly true for textiles, the area of North-South

trade where it is now most essential to halt and reverse the protectionist tide. Nevertheless, it is still reasonable to expect the industrialized countries to do two things, within the next year if not immediately, to indicate to the South that they are not totally opposed to substantive progress in the field of trade liberalisation :

- The first is to reaffirm their determination to implement the agreements of the Tokyo Round and to build on them where possible (eg. codes of conduct).
- The second is to point to one or two specific areas in which some progress towards trade liberalisation might be possible. Footwear, agriculture and semi-processed goods are three practical examples.

CONCLUSION

The 14 proposals enumerated above show that it is possible for the industrialized countries to do a great deal to assist the non-oil Third World which is highly cost-effective, which requires modest sums of public money, which involves minimal changes to existing international institutions, and which permits an equitable degree of financial burden-sharing with OPEC.

The Summit of the Western Seven in Venice on June 22-23 provides a major opportunity to generate urgently-needed political momentum towards these objectives. While it is unlikely to be a suitable occasion to enter into detailed negotiations or commitments on any of the 14 initiatives proposed above, it is reasonable to expect two things to emerge from Venice.

The first is a declaration of intent to make progress in the four problem-areas to which I have referred : international payments, energy, food, and protectionism. The second is action - or at least a pledge to find ways of taking action - on several specific initiatives within these areas. They could be drawn from the 14 which I have suggested.

Taken together, these gestures could do a great deal to convince the developing countries that the North takes their problems seriously and genuinely means to do business with them. As a result, the OPEC countries might be more willing to cooperate with the North in assisting the growth of the non-oil developing countries as well as over the vital question of oil supplies. And the developing world as a whole might have a greater incentive to restrict the range of demands which it makes of the North at any one time and in any one forum. This, in turn, is a pre-condition of progress in the Special Session of the United Nations this August and in the Global Negotiations which are due to follow it in the New Year.

In short, the forthcoming Summit of the Western Seven at Venice provides an ideal opportunity to improve the atmosphere of North-South negotiations and therefore to make progress on a range of issues which vitally affect the prosperity and security of the entire global community. It is my hope that the Heads of State or government involved will seize that opportunity.

FORUM FOR NEGOTIATIONS

Mr. BINGHAM. The question of the forum for negotiation on questions of this magnitude is a very difficult one.

As you know, the U.N. is holding a special session this summer on a new International Development Strategy. I would like to ask you first of all what you think the prospects are for that kind of a meeting? Also related to that is the question of whether we can proceed without the Eastern bloc nations. If so, how would you visualize the arrangements for the negotiations?

Mr. HEATH. I would hope that we could have firm indications from the north. To use the expression I used earlier, we are now going to be serious and mean business about these questions before the actual Special Assembly in the United Nations in August.

Otherwise, I fear that the suspicion and resentment which has built up over the last 15 years between north and south will continue. As I said, I want to get away from the resolution-passing attitude of UNCTAD and other organizations.

I do not want the Special Assembly simply to go on passing more resolutions, which would only deepen the suspicion and the bitterness which already exists. That's why many of us are very keen to get a clear statement from northern leaders that they are prepared to act.

I think then we will be able to satisfy the Special Assembly that they should try to adopt the attitude that we finally came to with the Brandt Commission, which is how to define a community of interests rather than passing resolutions, regardless of the fact that one happens to have more votes on one side than the other and passing a resolution is simple. We have now got to get down to the basic problems of practical action.

We propose in the Brandt Commission report a minisynod. There obviously are difficulties in selecting who should be present. There have been discussions between John Sir Kryskey of Austria and the President of Mexico about a possible conference of this kind in 1980. They'll have to give more thought to the kinds of people who would be invited to it.

I still think it would be necessary for the hard, practical suggestions to come from the bodies mainly concerned: The north that has the power to change institutions, and the OPEC countries that have the money to invest, and the interests of the developing countries as a whole must also be taken into account.

REACTION OF OPEC NATIONS

Mr. BINGHAM. I think it was a fantastic achievement to get unanimous agreement among the disparate group that was the Commission. I note that you had on the Commission people from the OPEC countries. Have you had indications from OPEC nations of a sympathetic reaction to these ideas?

Mr. HEATH. I have had private indications of a favorable reaction toward this approach, because they regard it as a genuine attempt to try to solve some of their own problems. One has to recognize, I think, two things.

First, that OPEC, for political reasons, cannot afford to sever itself from the rest of the developing countries. They will, there-

fore, always have in mind the interest of the nonoil producing, or oil importing, countries.

This means that to get the final agreement, we would also like to take some action on the other spheres which affect the rest of the developing world. That means something on the multinational or transnationals, something on the indebtedness; something on helping with commodity processing; and something with industrial access.

I think that will be an essential concomitant of whatever arrangements we get for recycling of surpluses and investment generally in the south.

The other point one has to bear in mind is that probably the single most effective thing that we could do would be to bring about a settlement of the Palestinian question. If we could do that, we would remove so much of the suspicion from the OPEC countries, particularly in the gulf. They would be far more prepared to cooperate with the north in the sort of arrangements that we would like to have.

I do not want to go into the details of the Palestinian question. I have already said enough controversial things. Facing the facts of life, it is perfectly true that we must recognize OPEC's connection with the rest of the developing world. Of course, they want their votes in the United Nations and elsewhere.

So, it is a political question. The Palestinian question is also a political one which affects the area as a whole.

FINANCING DEVELOPMENT

Mr. BINGHAM. Would you discuss for us, briefly, the proposal in the report for a kind of international tax plan, in terms of feasibility and practicality and political chances?

Mr. HEATH. I'm sorry; I missed what you said.

Mr. BINGHAM. The proposal that I have not been able to study in detail is in chapter 15, a new approach to development finance, an idea for international fund raising, or international tax, as I understand it.

Mr. HEATH. Yes. Perhaps I could deal with two different aspects of this. We did discuss in the report the question of a world development fund. I do not think any of us wanted to create a new international institution. We have quite enough already.

Indeed, we have proposed a small body which could try to streamline the ones that we've got, and second, to set up a new institution like a world development fund takes time. You have to get the expertise. It probably poaches on other institutions while it is being formed. It also has to get the confidence of the people who are going to lend it money.

So, we would prefer that the existing institutions adapt themselves, the World Bank in particular, to program lending and to the structural organization so that a new institution is unnecessary.

We looked to the other means of raising funds. There is quite a wide variety. First of all, the World Bank is now authorized to increase its borrowing from \$40 billion to \$80 billion. If the ratio was changed from 1 to 1, to 1 to 2, it would collect up to \$160 billion. It was a question of the IMF having special drawing rights.

Here, I would like to emphasize that we phrased this extremely carefully. There has been some criticism that we were proposing special drawing rights for development. This would increase world inflation.

In fact, we carefully worded it so that special drawing rights are created only because world liquidity requires that it should be used for development in the south. So, the governing factor is where world liquidity requires it.

Another way would be for the IMF to sell gold and to use part of it as it did before. If it is reluctant to sell gold, let it borrow against gold. It should use those funds for development.

Then we came to the question of revenue raising. We put forward a number of ideas for consideration.

One was a tax on aircraft passenger flights, which I think is perfectly feasible. We have an international institution which deals with all air flights, and presumably they could arrange that. There would then be the criticism of the purist, why do people who travel by air have to pay a tax for development and people who travel by train or boat don't, to which the answer is, one is practical and the other two aren't and you just have to stand on that.

Then there was a question of a tax on armaments. I have always personally felt that this is very difficult to arrange, and I doubt whether it could be brought about.

The last thing we specifically mentioned was the resources of the seabed. I think here there is a possibility of raising very considerable amounts of revenue outside the 200-mile limit. We were advised that the possibility of doing this probably isn't very realistic until the beginning of the next century. So, it is not of immediate consequence in the problems that the south has.

Personally, I feel that if the resources of the seabed outside the 200-mile limit were developed for international use, particularly for further development in the south, very considerable sums could be raised in that way.

Mr. BINGHAM. Thank you.

Mr. Findley.

Mr. FINDLEY. Mr. Heath, in this country, once a judge, always a judge. Once a President, always a President. I don't know how it is in Britain, but I am tempted to call you Mr. Prime Minister. I hope you are not offended.

Mr. HEATH. They are not so polite in my country.

Mr. FINDLEY. In any event, this is a rare treat for us, and I would like to note in the record my estimate of the contribution you made to the cause of human advancement by the entry of Britain into the Common Market and the European Community. I salute you for that achievement.

FOOD SUPPLY

You have covered an enormous range of challenging problems with lucidity and precision. One aspect of the work of your Commission that intrigues me especially is the need for food supply. The American Farm Bureau Federation in this country some time ago recommended the establishment of a fund for food, a money reserve in international custody. I hope your Commission can give some further thought to that. I think that is promising, recognizing

that nations that are food exporting nations, like the United States and Britain, are unlikely to finance enough food donations worldwide, whereas a number of nations that import enormous quantities of food, like Saudi Arabia, could easily contribute very substantially to a fund from which food could be purchased for distribution.

The other aspect of the food problem that I want to mention, and my comments do not have any question marks in them but I would appreciate any comment that you might wish to make. I want to draw to your attention and to the attention of the Commission what I think is a very promising initiative on the part of the United States called title XII, the famine prevention program, of our Foreign Assistance Act.

Under that act, the resources of the land-grant universities of this Nation, the institutions which were created over a century ago to teach farmers how to do a better job are marshaled for the long-term task of improving the system the developing countries have for teaching their own small farmers.

This has only had a beginning, but I think it is a contribution that the United States is uniquely suited to make. I believe I am accurate in stating that the United States is the first country that took seriously higher education of the masses of farmers, and this set in motion the elaborate system we have today for teaching farmers.

I do not think for a minute we can transplant this system to a given Third World country. But I think, nevertheless, the basic thrust of this system that is providing a deliberate mechanism through which the small farmer can get useful information on a regular basis does hold promise for improving the lot of that person in developing countries, enabling him to make a little better use of what limited resources he might have at hand.

I mention this not to minimize or reduce the importance of the other endeavors that you have mentioned, but these endeavors, while urgent and critically important, probably have only indirect effect upon the lot of the small farmer in the developing country. I think this other initiative which our country is uniquely suited to carry forward does need awareness and encouragement. It has had only a tiny start. I wanted you to be aware of that.

Mr. HEATH. Yes; I agree entirely with what you have said about the food program, and that financial assistance ought to come from elsewhere as far as accumulating these reserves is concerned, and stabilizing the market generally. I believe that there are a number of ways in which the surplus countries could help, not only in food, but jointly, for example, in trying to find fresh sources of energy, and this is one of the fields in which the OPEC countries would gladly assist, because they want to conserve their own resources, as I have already mentioned, to the greatest possible extent.

On the second point, when the Commission met in Tarrytown, N.Y., we did receive evidence on this particular question, and it was very impressive indeed. The entire Commission was greatly impressed by what we were told, and its importance. I think it is a fair criticism of the European powers that when we did have responsibilities in so much of the south, we taught people how to be barristers, we tried to teach them how to be politicians, and we

later taught some of them to be jump out pilots, but we really did not teach them how to be good farmers. We are now seeing the consequences of that.

Again, it is a question of urgency, because as you said, it takes time for this system, admirable as it is, to work through with those people who have a very low standard of agriculture. We are at this moment seeing the standard of agriculture in the south falling and productivity falling at the same time as the demand is rising intensely. This in itself is a bad thing. I am afraid there are even some countries in Europe where self-sufficiency is decreasing.

Portugal, for example, used to be entirely self-sufficient. Now it has to import some 30 or 35 percent of its food. This is why we gave such a high priority in the 5-year plan to food programs and agriculture. One cannot change the habits of animals. One cannot change the rotation of plants. This is what brings about the urgency of getting action.

Mr. FINDLEY. Mr. Chairman, may I add just one word? I alluded to the proposal of the Farm Bureau Federation in favor of the establishment of a fund for food, and they see this as a useful supplement to whatever food reserves may be held in the private or public sector, not that the fund would be used to stockpile grain, but be available to buy whatever is needed for whatever locality where the need may arise, and I wanted to clarify that.

Mr. HEATH. Yes; thank you very much.

Mr. BINGHAM. Thank you.

Mr. Wolpe.

Mr. WOLPE. Thank you, Mr. Chairman.

Mr. Heath, I have been most impressed by the lucidity of your presentation this morning. The perspective that is developed in the Brandt Commission and that you have developed before this subcommittee today is one that I and members of this subcommittee share fully. I was particularly impressed by your focus on the political dilemma of how we translate all of this into a recognition of the mutuality of self-interest that is involved on the part of developed countries as well as on the part of the developing world. That is the political problem for all of us operating within democratic systems, and it has been a very real challenge within the Congress this year in particular.

TRANSNATIONAL CORPORATIONS

I wonder if you could spend a moment elaborating on your discussion concerning the development of a code with respect to the operation of transnational corporations. What are the key issues with regard to the operations of transnationals that were raised by the developing nations, by the south in this instance, and what are some of the examples of the elements of a code that would address the concerns that would be in the self-interest of the north as well?

Mr. HEATH. I think as far as the transnationals are concerned, the first question is their respect for the internal affairs of the country in which they are operating. This you can specify in general terms or be more explicit, but it does mean that they will not interfere with the government of the country in which they are present.

We accept this for our countries. I remember once being told by a very distinguished American trade union leader when he came to see me when I was Prime Minister that the transnationals were the greatest menace to democracy today, and I said to him, but are you aware that the Ford plant has been on strike now for 16 weeks, and the management is not settling, and he said yes.

I said, are you aware of the reason they are on strike and management refuses to settle? He said, well, it is a strike. I said, yes, but the reason why they are not settling it is that they are tearing up my government's income policy. They are not pursuing their interests as a transnational, let alone the American interest. They are doing what we as a government are asking them to do.

This is a point, to respect the internal affairs. The second question is availability of information to the government of the country in which they are operating, in particular on transfer pricing. Here again, there is a mutual interest between the south and the north. If we have a transnational operating in our country and also in Germany and also in Italy, then we have a mutual interest in knowing what is going on from the point of view of that transfer of pricing in order to assure that they pay their full share of taxation in the United Kingdom, and don't operate their transfer pricing so their profitability is shown elsewhere where the level of taxation is lower.

This all depends upon the availability of information, so it isn't just a question of appeasing the south. It is a question that we have a very clear interest in knowing. I think those are the main aspect of the transnational operation, but they are entitled to say to the government, very well, we are going to invest a considerable amount. It may take a long time to bear fruit, particularly in mineral exploration. We expect our investment to be respected while we are doing this.

If, of course, there is a change of government, in general policy toward socialization, then of course we expect our investment to be fully recompensed.

Mr. WOLFE. You made reference to being exploited by the transnationals. Does this relate primarily to being able to capture tax revenues from the production within the developing nations?

Mr. HEATH. That is certainly an element in it; the other element of course is the royalties which will be paid to the government, if they are doing it on that basis, for the products that are extracted from the soil. That is the spirit in which it operates.

What the developing country wants to know is that it is getting a reasonable figure in this respect and comparable to what other countries that may be stronger are getting and therefore in a stronger bargaining position with the transnational.

LINKING ASSISTANCE TO INTERNAL POLICIES

Mr. WOLFE. The report observes, on another subject, that many of the less-developed nations are deficient in working for equitable development within their own societies. There is the question, of course, of the stability of a number of regimes as a consequence of the inequitable development within the societies.

How does the Commission recommend we deal with or accommodate ourselves to that set of circumstances? What kinds of recom-

mentations are developed with respect to the nature of aid that would be provided? Is there a suggestion or a feeling that some of that aid should be provided more directly in some fashion to the people within these societies, as distinct from channeled exclusively through the governmental entities that are in place right now?

Mr. HEATH. If I understand the question correctly, I think this is probably one of the most difficult questions that we faced in the Commission, because it does concern the internal affairs of individual countries.

We all know and we saw quite clearly for ourselves as we traveled around holding our meetings the enormous disparities of wealth which exist in individual countries, and of course the argument is that with greater development assistance from outside these disparities are going to increase rather than diminish.

Is this the point that you were asking?

Mr. WOLPE. Yes.

Mr. HEATH. So we had to say to ourselves, what in fact can be done about this? And we came to the conclusion that the best thing was to put the responsibility firmly on the south itself. That is why we have the chapter in the report on what is required of the south in these circumstances.

We came to the conclusion also that if we were to say or if we were to link any particular form of development to the internal regime, then we were in difficulties. If we were to say the distribution of this development has to be in such a form internally, or your tax system has got to be changed so that those having larger incomes or larger amounts of capital get much more heavily taxed, and the poor are helped, then we were going to cause more trouble, and it would not tend to make the regime concerned accommodate themselves in the way in which we wanted.

Our general conclusion, and it is certainly one with which I agree, is that the best way is to try to influence these regimes behind the scenes to bring about the sort of reforms that we want. It is a very diplomatic job to do, but we couldn't see any other way in which we could exercise influence.

This can to a certain extent be done by countries in the south themselves who have got what seem to us to be reasonably acceptable systems saying to the other countries in the south, now, we are all members of the 77, all 105 of us, and we ought to deal with these problems, because they are causing world comment, and they are socially unjust.

But again, some countries will listen to some members and they won't listen to others. It is a question of international trust between types of countries, but we could not think of any way in which we could effectively link a particular form of aid or investment to an internal change in the country concerned.

Mr. WOLPE. You have articulated the dilemma that we all recognize, and when you get down to specific cases, it is a very difficult exercise. I am thinking specifically of the example of Zaire where an awfully persuasive case could be made—but nothing is being accomplished by the dollars that are moving into that area, although we are trying.

Mr. BINGHAM. Thank you.

Mr. Pease.

Mr. PEASE. Thank you, Mr. Chairman.

I, too, would like to welcome you to our committee, Mr. Prime Minister. We have followed your career with great interest and admiration.

TIMING OF NEGOTIATIONS

As I recall, you said in your testimony that you would hope for a clear indication on the part of the north that we are serious and mean business prior to the meeting this summer. In a previous hearing before the subcommittee on the same subject, I expressed skepticism that any kind of a clear indication could come from the United States considering that we are in an election period, that the President may not be able to make good on any promises he makes, and that our track record in the United States over the last couple of years of the Congress following through on what the President has promised has not been very good.

I was asking previous witnesses whether we ought not to hope that the conference gets postponed because this seems, from the point of view of the United States, almost the worst time to have a north-south discussion.

Do you see any indication or any hope for any indication on the part of at least the United States that we do mean business and are serious about helping the south?

Mr. HEATH. I think it would be improper for me to comment on anything of the internal policies of the United States, but it is a problem that also affects us, even though we haven't got an election. It also affects Germany, because they have their elections in October, and it affects France, because they have their elections in April or May of next year.

So, to a certain extent, every member of the north is bound to be affected by the election question.

I think that the big problem to deal with in public opinion is to show that the disadvantages from which we are all suffering cannot be met by allowing the situation in the south to become worse. The only way that we can solve our own problems is by insuring that the position in the south becomes better. This, I think, can be done in an election time.

I did just now, I think, for the first time use the word "aid" in response to Congressman Wolpe, who had also used it. I say to my own people at home that we must get away from this expression "aid." It sums up the idea of putting your hand in your pocket for church collection. You put out a coin and say, that is gone. That is the last I'll see of it. I have done my duty.

What we are dealing with now is investment on a large scale in order to meet the production requirements of the world for the next 20 years, in which we are all involved. The south loathes the word "aid" as well, because it smacks of charity, and what we want is a system where we know where we stand, and where we can see that we can get the development or the production going.

One may say to an electorate, 40 percent of our trade is with the south, and if the south collapses, 40 percent of our trade and 5 percent of our jobs go. I personally, as a politician, am prepared to say that to my own country, to my own constituents, and say that this is a jolly good reason for voting for me, because I am not going to allow that to happen.

Similarly, if one says that the advantage to us in trade is the following figure, whatever it might be, we don't want to see that surplus disappear, that again is a strong reason. If you can say to your constituents that you are getting these particular goods 16 percent cheaper than you would otherwise do, and if you cut it out, if you vote protectionist, you are going to push up your cost of living by 16 percent, that is a pretty powerful political argument in an election.

We are back again to the mutual interest in insuring that these people can continue to trade. Of course one faces the protectionist political problem, as we do in the United Kingdom with textiles. It is difficult to say to people in Lancaster that we are sorry you are going to lose jobs but in order to keep this trade going, we have to take in more textiles. The same thing applies, no doubt, in New England, if you are going to take textiles from Taiwan. So, what is the answer to that?

RESTRUCTURING INDUSTRIAL SOCIETIES

The answer is the restructuring of our industrial societies in the North. That is very easy to say, and much more difficult to bring about, because it involves capital expenditure, it involves retraining, it involves housing in the areas where the new industries are going to be formed, but if I may say so, in the United States, this is the policy you have followed with much greater success than we have been able to do in parts of Europe.

Many people here accept that they have two, and sometimes three careers in their lifetime, three different skills in which they have training. They are mobile. They are prepared to move from New England to California or from Atlanta, Ga.—because they know this is where the industry is moving. It is much more difficult in the older countries of Europe, particularly in the United Kingdom. I remember very well when we had a shipbuilding closing up on the Upper Clyde, and there were jobs empty on shipbuilding on the Lower Clyde, and what was the problem? The problem was bus fare. But would anyone move? No, they weren't even prepared to take a bus in the morning.

So, these are not easy problems politically, but the other aspect of the restructuring is to move ahead with technology, and this again is where the United States has been successful, and we have not yet got the same attitude and the same approach. You have moved ahead in technology in every respect, but now you have moved ahead in other areas which Europe has not yet done.

Again, it is difficult for me to explain to the people in Lancaster about losing their jobs in textiles when other people are getting jobs in Birmingham. That is where industrial change has to be brought about as painlessly as possible. So, if one is going to solve this in an election campaign, I am prepared to sell it on the basis of the large extent of our interest in the South, and if these disappear, our own position is going to become infinitely worse.

Conversely, the only way that we can get ourselves out of this deepening depression is to assure that investment does go into the South, and also that a large part of it is spent in the North.

MARSHALL PLAN

If I may remind you of what I have told my people at home so often, the Americans took the lead in doing this after the Second World War. It was in a way very comparable. Europe had been wiped out. The factories were gone. The plants and equipment were gone. The Americans had an economy which was the most powerful in the world, but was very largely geared toward war production.

So, if the Americans had listened to what some of the economists are saying today, you would have stopped everything. You would have been told you can't afford it. Government expenditures for war production, just wipe it all out. And you would have had a recession which was worse than 1931. But you were far too intelligent to do that.

What you said was, no, we will enable the Europeans to recover. The Europeans think the demand is there, but it is not effective because there is no money, and so under the Marshall plan you gave the Europeans the money. The Europeans then spent it in the United States buying plant and equipment.

Of course, there were some Americans who said, yes, well they will compete with us. It is a very good thing if they do compete with us. They will sell goods here, and with the money they get, they will buy more from us. That is how the world economy was recreated at the end of the forties. This is what I say to people at home.

Now, you can argue, of course, it is more difficult because it was one country, one administration, one man, General Marshall, and in Europe, only seven or eight countries, and three men who got it all organized in 6 months. Now we have over 20 in the OECD and 105 in the developing world. The principle is the same. It is a question of leadership to bring it about.

Mr. PEASE. Thank you. That was a very lucid explanation of the mutual advantages of development in the South.

POPULATION GROWTH

I would be interested in your comments about the ability, even given a solution to the political problems of the North, to carry this proposal off and really help the South develop in the way that you have suggested. It seems to me that the task is extraordinarily difficult. It will be exacerbated by population growth in the next 20 to 40 years, and much of our development effort in the last 2 or 3 years has been literally washed away by the rising price of oil to underdeveloped nations.

Granted, it is admirable to try to bring the south into the 20th or 21st century, but realistically, can we expect to do that? Is it a doable task?

Mr. HEATH. I don't underestimate the difficulty of doing it in the least, but I believe it can be achieved if we can get an understanding amongst the public and public support, because then political leadership will be prepared to do much more than it is at the moment.

In my own country, we have been greatly encouraged by the support which the report has had, and I have spoken to a consider-

able number of gatherings now, universities, businessmen, trade unions, all of whom have responded extremely well. The other members of the commission are doing this in their own countries, and I think that provided we can get support, we can make progress.

Of course, the oil question is basic to it. This is why I think that we have to have the very realistic dialog with the OPEC countries which is required. I think that can be brought about, because they are now facing the problem of having surpluses and not knowing what to do with them, having lost a large part of the value of the ones they did have. So, it has brought home to them the particular problems.

Some say, why don't they invest directly in the developing world? They admit, of course, that they do not have the expertise or machinery to do it. They have some trust funds, Kuwait trust funds for example, that they use, but they use them for the benefit of the other Moslem countries and not for the developing world as a whole.

What we want is to have them used in the international institutions for the benefit of the whole South. This may take some persuasion, but I think they are now much more open to it, and they see it also as a way in which the North can restore its prosperity. Politically, they do not want to see the North turn to the left as a revolt against unemployment and stagnant production and all the things which are being brought about to a considerable extent by continually rising oil prices.

Population is another major factor. We put considerable emphasis on population policy. Again, one gets into the question of the internal policies of individual countries. Some have been very successful. Sri Lanka has been very successful. I was down in the Province of Chezuan in China last year, and they now have a population of 97 million. There are 97 million there, and it will eventually drop.

On the other hand, once you come to Latin America, you come not only to the question of internal arrangements of countries, but also deeply religious questions. In Brazil, there are 150 million now and it will be 200 million by the end of the century, and the whole of Latin America is going to be growing at that rate. We shall see a massive transfer of population to Latin America rather than to other countries.

The population policy is of immense importance, and I think it is now quite clear that all of the evidence shows that where you have an increase in prosperity, you start to solve your problem of population increase.

Once you can show people that it is no longer necessary to have a large number of children to work in order to keep the family going, it is no longer necessary to have a large number of children so that when you are forced to retire there are people to look after you, once they can see that they get better education, better health, better sanitation, fresh water and so on, as a result of increasing prosperity, then the population problem begins to be solved.

In Kuwait, I saw a very clear example, because they showed me the figures on population increase for those who lived in Kuwait.

With all of the facilities of Kuwait, the oil money was no longer necessary, and the size of families has rapidly dropped.

Mr. PEASE. Thank you very much.

Mr. BINGHAM. Mr. Heath, we are most grateful to you for being with us today. It has been a privilege for us to have you.

I would like to say for the record that Mr. Peter Peterson and Mrs. Katherine Graham of the Brandt Commission have testified on the Commission's report before a subcommittee of the Banking Committee, and I was present for that session, but we did not want to burden them by asking them to appear before this subcommittee as well.

I think it is particularly appropriate that we have had your participation here today, and again, I want to express our deep appreciation to you for being with us.

We do have two additional witnesses, and I apologize to them for the long wait. I am sure they have found this an interesting session to attend.

Thank you very much, sir.

Mr. HEATH. Thank you very much, Mr. Chairman, and thank you to your colleagues.

Mr. BINGHAM. We will now hear from Mr. William J. Barton, president, International Business-Government Counselors, Inc., Dr. Timothy W. Stanley, president, International Economic Policy Association.

STATEMENT OF WILLIAM J. BARTON, PRESIDENT, INTERNATIONAL BUSINESS-GOVERNMENT COUNSELORS, INC., AND VICE CHAIRMAN, UNITED NATIONS INTERNATIONAL BUSINESS COUNCIL

Mr. BARTON. Thank you, Mr. Chairman and gentlemen.

Certainly, to put it mildly, the Prime Minister is a difficult act to follow. His testimony was brilliant, not only the theoretical aspect but also his practical approach in talking to Members of the Congress about how they should communicate the problem to the people.

I have a statement which has been submitted, and I will try to summarize this very briefly.

Mr. BINGHAM. Your entire statement will appear in the record, without objection.

Mr. BARTON. I will try to go over it quickly and not repeat a lot of the things that Mr. Heath has said.

MUTUAL INTERESTS

I think there's an enormous interest in the developing countries and their economic development. As has come out in the colloquy, we're not talking about idealism any more, we're not talking about charity, we're not talking of "aid." And I totally agree with Mr. Heath: I hope we can eliminate the word, because it has bad connotations. You go out and tell your constituents to vote more for aid and they want to know why don't you vote aid for central Detroit, the South Bronx, 14th and U Streets, et cetera—let's take care of our own. So aid is bad. But I think from the view of political, military, economic, commercial, industrial reasons, there isn't any doubt about it, it is an urgent necessity. Indeed, as Mr.

Heath put it very gently, in the east-west relation, from a strategic military position, these developing countries are vital to us. And he pointed to one in our backyard, which is Jamaica, which we are almost ignoring. We may wake up one day and find out that we need to spend more in the form of military appropriations to solve a more serious problem.

He talked of trade, of the \$14 billion surplus with the nonoil LDC's and of one job of 20 in the United States and resource supply requirements of the United States dependent on these countries. That's enough to explain it simply to an awful lot of American people.

Now, the U.S. response to the new international economic order. I believe we must shift from a defensive position to a strong offensive position, hopefully, at the special session in August and September. There is great opportunity in responding to the pressures from the developing countries demanding a new international economic order, not just danger.

Secretary Kissinger in September 1975 managed to fend off the extreme demands by proposing 41 suggestions of how to do something about it, and getting the discussions into various entities of the U.N. system. Now it's all back at center stage again, and it is coming, I agree with Congressman Pease, at a difficult time. But it can be made a positive time. However, I believe we—"we" means the diplomats and the executive branch and you gentlemen as well—have to tell the developing countries in the "Group of 77" the way it is. The rhetoric that colonial exploitation requires payments now to these countries, that we must, indeed, make up for the past, is going to get nowhere. The business of saying that multinationals are all evil and LDC's must get free such things as licensing of technology is nonsense; it is never going to happen. But I think after 5 years many of them are well aware of that.

So we must be able to say, "Let's forget the past," it isn't a matter of "right" that the United States, Japan, and Europe owe anything now to the developing world, at least, the people who run the countries and work in America, Japan, and Europe. But, as a matter of practical necessity, there is an enormous opportunity here.

MULTINATIONAL CORPORATIONS

First, I do want to dwell a little more on the transnationals or multinationals, because I think in the previous hearings that may not have been covered enough. They have been painted as the "bogeymen" and as the "devils" by certain strident spokesmen for developing countries. But, curiously enough, many of the leaders in the developing countries, who are in charge of ministries of trade and technology, will tell businessmen, "Forget about all that talk. That doesn't mean a thing. We want your technology. We want your management. We want you here. You are the producers of wealth. We want you in partnership." And you can point out the countries that have followed that course; and they include, of course, Brazil, Singapore, South Korea, Taiwan, Nigeria—welcoming not just American companies but Japanese, German, British, and Italian.

There has been a lot of attack on the multinationals that I believe is vastly overblown. But that is not to say that there aren't

some legitimate complaints or that multinationals, or transnational enterprises because it includes farm groups too, do not have to have some control and regulation on a voluntary, and in some fields on a mandatory, basis.

Congressman Wolpe asked about what is going on specifically. He asked Mr. Heath about what are some of the complaints, what is being talked about in codes of conduct negotiations. I would be glad to give to any members of the subcommittee a very thorough and comprehensive document about what is going on in all of these different U.N. bodies, from the UNCTAD to the UNCTSD to the U.N. Transnational Center and Commission, chapter and verse on accounting standards, technology transfer pressures, equity ownership, all of the various complaints, one might say, from the developing countries and how they are proceeding in these bodies.¹

Now, the code of conduct pressures have not been all negative. We have seen in our own U.N. International Business Council in New York, which is a group of American, European, and Canadian companies that meet with leaders of the Group of 77 and officials of the U.N. Transnational Center, there can be great reciprocal education. A lot of the theorists in the U.N. from developing countries are political people who do not understand business, commerce, and trade, but through the Code of Conduct they have begun to understand what licensing agreements mean, what licensing of technology means. They have gained a much better comprehension in dealing with and talking with a lot of international business executives. Similarly, a number of multinational executives have learned a great deal from these officials, the political people at the U.N. and in these bodies about some of their complaints, which they recognize have some validity, such as improper transfer pricing, although they question a lot of others.

But I have put into my statement, and I won't repeat it here, a number of points about transnational enterprise. And it is very curious that the leading Socialist, Communist countries—the Soviet Union and China—amazingly, have become pragmatic. They have cast aside, if you will, the treatises and rhetoric about dealing with foreign corporations and multinationals and are in the lead seeking their technology, their management skills, and their global marketing outlets. So, indeed, this can happen even with a number of the countries that have been most strident in criticizing the foreign investors or multinationals. They are beginning, I believe, to realize that the multinationals do, indeed, have the wealth-producing capacity of providing goods and services, and if MNC's come into a country they need not dominate that country. In fact, I do not know of any country where MNC's dominate the government, although that accusation is repeatedly made, MNC's are subject to the local government. And most of them are very aware today they must be good citizens, contribute benefits to the local population in the country, and adapt to the local needs. This has been going on at a very successful rate.

¹ "The Multinational Corporation Regulatory Guidebook: A Review and Outlook Report on International Organization Activities Impacting International Business" (International Organizations Monitoring Service, International Business-Government Counselors, Inc., 1980), is retained in subcommittee files.

INDUSTRIALIZED NATION COOPERATION

I think the United States has a great opportunity to take the lead now in a new global development program. Even prior to the August meeting and after this Venice summit, President Carter and other leaders of the Congress could, indeed, see an opportunity to help solve our own problems of unemployment, economic decline, and observe that by taking some bold initiatives, which are not common these days in Washington compared to years ago, we might, indeed, help the developing world by helping ourselves.

So if the United States can talk to the leaders of Japan and the leaders of the European countries—and it's going on today, this week in Venice—and say there is a classic economic partnership possible. There is great demand and need on the part of the developing world; there is the wherewithal, the industrial know-how, capacity, and technology in Japan, the United States, and in Europe; and there is the finance from the OPEC countries, who don't know what to do with their enormous surpluses, to put them to active use instead of passive investment. These resources can be mobilized on a partnership basis for a very bold new economic development program.

One can say that Washington today isn't ripe for anyone talking about a bright, new, bold, economic program. This probably is true if it means appropriating money for giveaways or to plain old-fashioned "aid." But if we can get this partnership activated, for a hard-nosed practical reason, beneficial to American workers, taxpayers, and to the Nation, and tie it in with what Japan and Europe want to do, when it is feasible. I have just been in Japan for 2 weeks and I am very impressed at the scope and breadth of their vision. What do I mean by "their"? I mean government leaders, heads of some major Japanese companies that are talking about bold new ideas, like a second Panama Canal, great development efforts in Africa, and the Pacific basin. They see the enormous opportunities, particularly in the Pacific basin, to tie in the know-how of Japan, Australia, Canada, and the United States to the needs of Latin America, Southeast Asia, South Asia, and many Pacific islands. And they remind me, frankly, of American dynamism and practical idealism back in the early sixties. We have become somewhat cynical, skeptical, and disheartened and we wring our hands about unemployment, recession, and decline in the world, when there is an enormous opportunity there that could help solve all our problems.

MARSHALING SUPPORT IN THE UNITED STATES

One might say, "That's fine. It sounds marvelous. How are you going to achieve it quickly? And is it going to work?" I think it is going to take some strong leadership by gentlemen like you in the Congress and the administration. And it should not be a partisan matter at all. I would hope two or three candidates would come forward with this concept. And they have to communicate with the people.

I was fascinated how Mr. Heath talked about if you are out running for election, as all of you are right now, how to communicate this, that it isn't just a case of voting more billions for aid that

isn't going to benefit the constituents any. If they know this number of American jobs are going to be retained, if prices are going to be kept lower, that maybe in the long run our military appropriation will be less because we'll have more friends in the developing world. I think it's a classic communication problem. My only critique about a lot of the U.N. activities, perhaps even of the Brandt report, is they are all so intellectual and the words are so fancy that the average citizen would not know what they're talking about. I think we have a language problem, and the Congress has a language problem, to tell it like it is, in simple words, to the American people and get the media to pick it up. Not "liquidity" and not some of the words about "recycling," but getting down to simple realities.

To wind up I would just say one other thing: That I believe the U.S. Government has an enormous task to get our own house in order with respect to transnationals and private enterprise, to end with the tremendous array of disincentives to trade and investment. I heard a UNIDO top official say the other day that he couldn't believe in Egypt how the United States advanced enormous sums of "aid" which could not go to American companies and businesses because of certain disincentives that the United States put into law and the Germans got the business. This is happening constantly, and I believe that there is another story for another hearing, that we need a strong reorganization of the executive branch and, if you will, of the Congress for international economic policy formation and a new department of international trade and investment, to carry out a new global strategy economically, of which the so-called global development program is only one part, not for idealistic reasons but hardnosed practical domestic reasons.

I believe it involves political will, it involves leadership. It involves some people who want to stand up and say these things, not think they're going to be laughed at and scoffed at. But it is 1980 now and there is great opportunity or there's enormous danger. We're either going to have a miserable decade or a great one. And in this area, if articulate and organized, with existing institutions of the world but also with new ones, in a new structure to implement global strategy, not just occasional economic summits but, rather, a new structure of economic coordination between the United States, Europe, and Japan.

Thank you very much, Chairman Bingham and gentlemen.
[Mr. Barton's prepared statement follows:]

PREPARED STATEMENT OF WILLIAM J. BARTON, PRESIDENT, INTERNATIONAL BUSINESS
GOVERNMENT COUNSELORS, INC., AND VICE CHAIRMAN, UNITED NATIONS INTERNATIONAL
BUSINESS COUNCIL

I THANK THE MEMBERS OF THE COMMITTEE FOR INVITING ME TO TESTIFY AT YOUR HEARINGS TO DETERMINE AND ESTABLISH UNITED STATES INTERESTS IN THE NORTH-SOUTH DIALOGUE WITH PARTICULAR ATTENTION TO THE COMING UNITED NATIONS GLOBAL SESSION ON ECONOMIC MATTERS IN AUGUST AND SEPTEMBER. MANY ELOQUENT AND PRESTIGIOUS INDIVIDUALS HAVE ALREADY COVERED KEY POINTS OF BACKGROUND AND PRESCRIPTIONS FOR FUTURE POLICY. IT IS A PARTICULAR PRIVILEGE TO BE A WITNESS TODAY WITH FORMER BRITISH PRIME MINISTER HEATH WHO HAS BEEN WRITING SOME BRILLIANT PIECES ABOUT SOLUTIONS TO OUR GLOBAL ECONOMIC AND POLITICAL PROBLEMS.

THESE HEARINGS AND THE UN GLOBAL ECONOMIC SESSION COME AT A TIME WHEN THE WORLD IS IN A GREATER STATE OF UNCERTAINTY POLITICALLY AND ECONOMICALLY THAN IT HAS BEEN SINCE THE END OF WORLD WAR II. THE TOPICS OF "Aid" AND ASSISTANCE TO DEVELOPING

countries is one of the most important issues of our time. It is a subject that has been discussed for many years, but it is only now that it has become a major concern of the world. The United Nations Global Session on Economic Matters in August and September will provide an excellent opportunity for us to discuss this issue and to reach a consensus on the way forward. I believe that the United States has a special interest in this issue, and I am pleased to have the opportunity to testify before you today. I will discuss the current situation, the challenges we face, and the steps that we need to take to address these challenges. I will also discuss the role of the United States in this process and the steps that we need to take to ensure that we are doing our part. I believe that the United States has a special interest in this issue, and I am pleased to have the opportunity to testify before you today. I will discuss the current situation, the challenges we face, and the steps that we need to take to address these challenges. I will also discuss the role of the United States in this process and the steps that we need to take to ensure that we are doing our part.

MANAGING FINANCE IN THE UNITED STATES

One might say, "There's fine. It sounds marvelous. How are you going to achieve it quickly? And is it going to work?" I think it is going to have some strong leadership by gentlemen like you in the Congress and the administration. And it should not be a partisan matter at all. I would hope two or three candidates would come forward with this concept. And they have to communicate with the people.

I was fascinated when Mr. Heath talked about if you are not running for election, we all of you are right now, how is communication this, that is just a case of voting them in before the old stock

COUNTRIES EVOKE SPARSE INTEREST IN WASHINGTON THESE DAYS WITH THE U.S. AND SOME OTHER COUNTRIES EXPERIENCING ECONOMIC DOWNTURN, AND A DECLINE IN THE POLITICAL WILL TO SOLVE PROBLEMS NOT CLEARLY IN THEIR OWN FRONT YARDS.

MOST OF THE PROPOSALS WE HEAR FOR AID INVOLVE "MORE OF THE SAME" IN TERMS OF GOVERNMENT-TO-GOVERNMENT ASSISTANCE, AND PALLIATIVES TO DEFEND AGAINST THE DEMANDS OF THE DEVELOPING COUNTRIES THAT DO NOT HAVE THE BENEFIT OF OIL RESOURCES.

I BELIEVE THAT THE DEVELOPING COUNTRIES ARE RIGHT IN PRESSING FOR A CHANGE IN THE GLOBAL ECONOMIC SYSTEM BUT I CERTAINLY DECRY THE RHETORIC AND EXTREME POSITIONS OF WHAT IS CALLED THE NEW INTERNATIONAL ECONOMIC ORDER. YET THE DEVELOPING COUNTRIES ARE RIGHT IN THEIR CHARGES THAT THE U.S. AND OTHER INDUSTRIALIZED NATIONS HAVE BEEN SLOW TO RECOGNIZE THE REAL IMPLICATIONS OF GROWING GLOBAL INTERDEPENDENCE.

WHAT IS NEEDED IS POLITICAL WILL FROM THE UNITED STATES GOVERNMENT, TO JOIN WITH JAPAN AND EUROPE TO DEVELOP COOPERATIVE ACTION THROUGH A BOLD DEPARTURE VIA A NEW GLOBAL DEVELOPMENT PROGRAM. SUCH A PROGRAM COULD NOT ONLY HELP MEET THE REAL NEEDS OF THE DEVELOPING COUNTRIES BUT HELP TURN AROUND THE ECONOMIC DECLINE IN THE INDUSTRIALIZED COUNTRIES.

WHY IS IT IN THE NATIONAL SELF INTEREST OF THE UNITED STATES TO PAY HEED TO THE NEEDS OF THE DEVELOPING COUNTRIES? WHAT IS ELEMENTAL IS THAT POVERTY AND DEPRIVATION BREED CHAOS AND MAKE

INCENDIARY ECONOMIC AND POLITICAL TINDERBOXES TO IGNITE WORLD CONFLICT. IT IS HIGHLY UNLIKELY THAT THE U.S. AND THE SOVIET UNION WILL INTENTIONALLY GO TO WAR WITH ONE ANOTHER, AND MOST IMPROBABLE THAT EUROPE AND JAPAN WOULD INTENTIONALLY GET DIRECTLY INVOLVED IN WAR WITH THE SOVIET UNION. THE DANGER IS THAT IN SOME DEVELOPING COUNTRY THERE WILL BE ECONOMIC AND POLITICAL DIFFICULTIES AND INSTABILITIES WHICH MAY CAUSE INADVERTENT AND MISCALCULATED CONFLICT BETWEEN THE SUPER-POWERS, WHICH WILL LEAD TO THE SARAJEVO OF THE 80s.

IT IS IN THE PRIMARY NATIONAL INTEREST OF THE UNITED STATES THAT THERE WILL BE POLITICAL STABILITY IN THE DEVELOPING WORLD, THAT CHANGES BE OF AN ORDERLY TYPE, WHETHER POLITICAL, SOCIAL, OR ECONOMIC, THAT THERE BE ACCELERATED AND BALANCED ECONOMIC DEVELOPMENT TO FEED, CLOTHE, AND HOUSE PEOPLE AND MAKE THEIR LIVES MEANINGFUL, AND THAT THESE COUNTRIES OF AFRICA, ASIA, LATIN AMERICA, AND THE MIDDLE EAST GAIN ECONOMIC STRENGTH TOWARD A REASONABLE DEGREE OF SELF-SUFFICIENCY IN AN INTERDEPENDENT WORLD.

FURTHER, THE LDCs ARE BECOMING EVER GREATER EXPORT MARKETS FOR THE U.S. AND THE OTHER INDUSTRIALIZED COUNTRIES WHICH MEANS JOBS IN THE U.S. AND, THAT SOME LDCs ARE IMPORTANT SUPPLIERS OF RAW MATERIALS TO THE "NORTH".

THE DEMANDS FOR A NEW INTERNATIONAL ECONOMIC ORDER NEED APPROPRIATE RESPONSE AND A COUNTER-PROPOSAL OF A VERY CONSTRUCTIVE TYPE. THE STRIDENT RHETORIC OF BLAME ON THE INDUSTRIALIZED WORLD AND THEIR MULTINATIONAL CORPORATIONS FOR THE POVERTY OF MANY OF THE DEVELOPING COUNTRIES SHOULD BE PUT ASIDE. AMERICAN DIPLOMATS AT THE UNITED NATIONS IN AUGUST MUST "TELL IT LIKE IT IS," AND MAKE CLEAR TO THE LDCs THAT AMERICA, AND I AM SURE JAPAN AND EUROPE,

ARE EXTREMELY INTERESTED FROM THEIR OWN NATIONAL SELF INTEREST AS A MATTER OF PRAGMATIC REALITY TO ACCELERATE THE ECONOMIC DEVELOPMENT OF THE LDCs. PASSIVE RESISTANCE AND DEFENSIVE ACTIVITIES BY THE U.S. AND THE DEVELOPED COUNTRIES IS NOT ENOUGH, - NEW LEADERSHIP IS REQUIRED.

MOST IMPORTANT IS THAT THE PRIVATE SECTOR AND, YES, THE MULTINATIONAL CORPORATIONS BE BROUGHT IN AS PRIMARY ENGINES OF DEVELOPMENT, HARNESSING THEIR MANAGEMENT EXPERTISE, TECHNOLOGY, AND GLOBAL MARKETING SYSTEMS TO DEVELOPMENT GOALS. THIS WOULD BENEFIT THE BUSINESSES, OF COURSE, AND THEIR HOME COUNTRIES, SUCH AS THE UNITED STATES, OF COURSE, BUT, IN THE PROCESS, RAPIDLY RAISE THE ECONOMIC STANDARDS OF THE DEVELOPING WORLD. IT IS THE PRIVATE SECTOR THAT HAS THE EXPERTISE IN PRODUCING WEALTH, THAT IS PROVIDING GOODS AND SERVICES, AND MAKING AVAILABLE THE FOOD, SHELTER, HOUSING AND OTHER NECESSITIES THAT ARE NEEDED BY THE UNDERPRIVILEGED OF AFRICA, ASIA, LATIN AMERICA, AND THE MIDDLE EAST.

I SAY THIS NOT IN THE NAME OF IDEALISM OR MORAL OBLIGATION, NOR THROUGH A MISCONCEIVED CONCEPT EXPRESSED BY THE RHETORIC OF THE LDCs TO "RIGHT PAST WRONGS OF COLONIAL EXPLOITATION," BUT RATHER BECAUSE OF HARD-NOSED PRAGMATIC ECONOMIC REALITY, AND I MIGHT ADD POLITICAL REALITY

SEVERE ATTACKS AGAINST THE MULTINATIONAL CORPORATIONS, OR TRANSNATIONAL CORPORATIONS AS THEY ARE CALLED AT THE UN, HAVE BEEN A KEY FEATURE OF THE MOVEMENT FOR A NEW INTERNATIONAL ECONOMIC ORDER. THERE IS NEITHER TIME NOR VALUE HERE IN GOING INTO DETAIL OTHER THAN TO SAY THAT, OF COURSE, THERE HAS BEEN SOME MISBEHAVIOR BY SOME PRIVATE SECTOR COMPANIES IN DEVELOPING COUNTRIES, BUT ONE CAN FIND SUCH MISBEHAVIOR IN GOVERNMENTS, PARLIAMENTS, AND ALL HUMAN INSTITUTIONS.

BUT THE FACTS ARE THAT EVEN IN SOME OF THOSE VERY COUNTRIES THAT HAVE BEEN MOST STRIDENT AT THE UN AGAINST MULTINATIONALS, THEY MAINTAIN A TWO LEVEL APPROACH TO FOREIGN TRANSNATIONALS. ONE LEVEL IS AT THE UN RHETORIC LEVEL WHERE MNCs ARE CASTIGATED AND ATTACKED AND REGULATION IS DEMANDED. ONE OTHER LEVEL IS IN THE HOME COUNTRY WHERE THE PRAGMATIC MINISTRIES OF FINANCE, TRADE AND COMMERCE, INDUSTRY, AND ENERGY EAGERLY SOLICIT THE TECHNOLOGY, MANAGEMENT SKILLS, AND GLOBAL MARKETING FACILITIES OF THESE VERY SAME COMPANIES. THIS WAS MOST EVIDENT WHEN PRESIDENT ECHEVERRIA OF MEXICO WAS LEADING THE GROUP OF 77 SINCE HE WAS A LEADING CRITIC AT THE UN, BUT HIS GOVERNMENT AND EVEN HE, HIMSELF, WERE MOST INTERESTED IN NOT LOSING ANY OF THE MNC ACTIVITIES IN MEXICO AND PRIVATELY SOLICITED MORE.

LET US TAKE A BRIEF LOOK AT SOME VIVID CASE EXAMPLES OF COUNTRIES THAT HAVE BENEFITTED FROM MULTINATIONAL CORPORATIONS AND THEIR TECHNOLOGY, MANAGEMENT, MARKETING SKILLS, AND CAPITAL.

FIRST, THERE ARE THE SO-CALLED "NEWLY INDUSTRIALIZED COUNTRIES" (NICs) SUCH AS BRAZIL, NIGERIA, SINGAPORE, SOUTH KOREA, AND TAIWAN, THAT HAVE BECOME SHOWPLACES OF ECONOMIC DEVELOPMENT. IT IS HARD TO EVEN SPEAK OF THEM ANY MORE IN THE SAME CATEGORY AS OTHER DEVELOPING COUNTRIES.

NEXT IS THE MOST DRAMATIC EXAMPLE OF SUCCESS OF ONE DEVELOPING COUNTRY IN THE WORLD, ONE WITHOUT ANY NATURAL RESOURCES TO SPEAK OF, DEPENDENT ON EXTERNAL SOURCES FOR ALMOST ALL RAW MATERIALS AND HEAVILY DEPENDENT ON EXTERNAL MARKETS FOR SALE OF THEIR PRODUCT. PERHAPS THAT COUNTRY HAD ONLY ONE VITAL NATURAL RESOURCE WHICH IS OFTEN OVERLOOKED -- THE SPIRIT, THE WILL, THE PERSEVERANCE,

COOPERATION AND HARD WORK OF A PEOPLE FOR THE COMMON GOOD. I SPEAK OF JAPAN WHICH, AFTER DEVASTATION OF WORLD WAR II, LITERALLY ROSE FROM THE ASHES TO BE TODAY ONE OF THE ECONOMIC POWERS OF THE WORLD. FOREIGN TECHNOLOGY WAS SOUGHT OUT AS WERE FOREIGN MANAGEMENT SKILLS. AND THEN, IN TYPICAL JAPANESE FASHION, ALL OF THESE HAVE BEEN IMPROVED UPON UNTIL JAPAN ACTUALLY HAS GIVEN CONCERN TO A NUMBER OF SLEEPY INDUSTRIES IN AMERICA AND EUROPE.

BUT, WE HAVE EVEN TWO OTHER GREAT CASE EXAMPLES - - THE MARXIST STRONGHOLDS OF THE WORLD, THE SOVIET UNION AND CHINA. I WAS IN THE KREMLIN IN 1964 WITH THE FIRST GROUP OF "CAPITALISTS" TO MEET THERE SINCE THE BOLSHIEVIK REVOLUTION, AS PREMIER KOSYGIN TOLD US. THE USSR HAS BECOME EXTREMELY PRAGMATIC IN PUTTING ASIDE ITS RHETORIC ABOUT THE CAPITALISTS AND MULTINATIONALS WHEN THEY SEEK OUT FOREIGN TECHNOLOGY, MANAGEMENT, CAPITAL, AND MARKETING SKILLS.

MAO TSE TUNG QUITE ACCURATELY ATTACKED THE SOVIET UNION ON A KEY POINT THAT THEY HAD DEVIATED FROM MARXISM, AND INDEED, THEY HAD. NOW, MAO'S SUCCESSORS, LED BY THAT CHINESE PATRIOT, PREMIER TENG, ARE BEGINNING TO OUTDO THE SOVIETS IN TAKING A PRAGMATIC APPROACH TOWARD FOREIGN TECHNOLOGY, MANAGEMENT, CAPITAL, AND GLOBAL MARKETING SKILLS, PRIMARILY IN THE PRIVATE SECTOR, DEALING WITH THE SO-CALLED MULTINATIONAL CORPORATIONS OF JAPAN, THE UNITED STATES, AND EUROPE.

AT THE UN IN AUGUST OUR DIPLOMATS MUST TELL THOSE WHO IRRESPONSIBLY ATTACK INTERNATIONAL BUSINESS CORPORATIONS THAT THEY MUST FACE ECONOMIC REALITY AND SEEK TO BENEFIT IN AN OPEN AND CONSISTENT BASIS FROM THE PRIVATE WEALTH-PRODUCERS OF THE WORLD.

OUR DIPLOMATS MUST STRESS THAT THE SOLUTION IS NOT UNREASONABLE REGULATION OF THE MNCs BUT HARNESSING THEIR PRODUCTIVE CAPACITY. REGULATION OF THE MULTINATIONALS HAS BEEN NEGOTIATED AND DISCUSSED FOR SOME YEARS NOW IN THE UN, NOTABLY THROUGH THE MNC CODE OF CONDUCT AND ILLICIT PAYMENTS CODE; AND, IN THE UNCTAD, INVOLVING THE TECHNOLOGY TRANSFER CODE, AND IN MANY OTHER FORA OF INTERNATIONAL ORGANIZATIONS. FOR A COMPREHENSIVE REVIEW, THE MNC REGULATORY GUIDEBOOK: A REVIEW AND OUTLOOK REPORT ON INTERNATIONAL ORGANIZATIONS ACTIVITIES IMPACTING INTERNATIONAL BUSINESS, 1980 EDITION SHOULD BE REFERRED TO.

THERE HAS BEEN MUCH BENEFIT IN ALL THESE REGULATORY EFFORTS. WE HAVE GAINED GREAT EDUCATION OF DEVELOPING COUNTRY GOVERNMENT OFFICIALS AND UN OFFICIALS ABOUT HOW, INDEED, THE PRIVATE MULTINATIONALS AND INTERNATIONAL BUSINESSES OPERATE IN THE WORLD. AND, THE MULTINATIONALS' EXECUTIVES HAVE BEEN GETTING GREAT EDUCATION IN UNDERSTANDING THE COMPLAINTS AGAINST MNCs BY THE DEVELOPING COUNTRIES CAUSING MNCs TO VOLUNTARILY CHANGE A NUMBER OF THEIR PRACTICES AND BEING RECEPTIVE TO MAKING CHANGES IN THE FUTURE.

I DO NOT WANT TO IMPLY THAT ALL THE COMPLAINTS OF THE DEVELOPING COUNTRIES ARE GROUNDFLESS, AND CLEARLY IT IS IMPORTANT THAT REASONABLE RESTRAINTS, CONTROLS, AND REGULATIONS OF MULTINATIONALS AND FOREIGN INVESTORS AND FOREIGN TRADERS IN THE DEVELOPING WORLD SHOULD BE RECOGNIZED. THE OECD HAS MADE GREAT STRIDES IN SPECIFIC GUIDELINES. HOPEFULLY, THROUGH THESE EXTREMELY LONG NEGOTIATIONS, WE WILL COME TO A REASONABLE SENSE OF WHAT TYPE OF REGULATIONS CAN PREVENT UNJUST EXPLOITATION,

IMPROPER TREATMENT OF DEVELOPING COUNTRIES THROUGH IMPROPER TRANSFER PRICING MECHANISMS, AND OTHER FINANCIAL AND ACCOUNTING AND MARKETING DEVICES. BUT, THE U.S. GOVERNMENT MUST BE VERY STRONG TO INSURE THAT VARIOUS REGULATORY CONTROLS DO NOT END UP BINDING AND DESTROYING THE FERTILITY OF THE GEESSE THAT CAN LAY THE GOLDEN EGGS FOR THEM.

INTERNATIONAL BUSINESS AND MNCs MUST HAVE IN THE CODES OF CONDUCT CERTAIN PROTECTIONS AGAINST IRRESPONSIBLE LDC GOVERNMENT ACTIONS, THAT IS, AGAINST POLITICAL RISK. THE LDCs SHOULD BE URGED TO LAY ASIDE LEGALISTIC ARGUMENTS OF SOVEREIGNTY AND OFFER TO ABIDE BY INTERNATIONAL TRIBUNAL DISPUTES SETTLEMENT PROCEDURES SUCH AS THOSE OF THE WORLD BANK. ALSO, A NEW INTERNATIONAL INVESTMENT POLITICAL RISK INSURANCE SYSTEM CAN BE DEVELOPED

U.S. NEGOTIATIONS SHOULD MOVE INTO A POSITIVE STAND AND TELL THE DEVELOPING WORLD THAT WE ARE PREPARED TO COME UP WITH A NEW POLICY AND PROGRAM TO HELP MOBILIZE THE PRIVATE SECTOR, INCLUDING THE MULTINATIONALS, TO HELP THEM IN THEIR QUEST FOR ACCELERATED ECONOMIC DEVELOPMENT. MY MAJOR PROPOSAL IS THAT NOW, IN THE YEAR 1980, THAT THE UNITED STATES PROPOSE TO INAUGURATE A GLOBAL DEVELOPMENT PROGRAM ON A MULTILATERAL BASIS.

WHAT IS A "GLOBAL DEVELOPMENT PROGRAM?"

FIRST, THIS MEANS THAT THE U.S. GOVERNMENT MUST GET ITS ACT IN ORDER AND THAT THE CONGRESS AND THE EXECUTIVE BRANCH MUST SEE THE DOMESTIC POLITICAL AND ECONOMIC BENEFITS AS WELL AS THE GLOBAL BENEFITS OF THIS NEW EFFORT.

SECOND, THE UNITED STATES MUST JOIN WITH JAPAN, WHICH I BELIEVE IS CONCEPTUALLY WAY AHEAD OF US IN THIS AREA, AND WITH THE NATIONS OF EUROPE TO DEVELOP A GLOBAL STRATEGY FOR DEVELOPMENT; NOT JUST RESTING ON A WEEKEND SUMMIT FROM TIME TO TIME, BUT WITH A STRUCTURE AND OPERATING MECHANISM FOR CONTINUING COOPERATION AND GUIDANCE OF THE PROGRAM.

THIRD, DEDICATION TO MOBILIZE THE PRIVATE SECTOR FOR LDC ECONOMIC DEVELOPMENT GOALS.

FOURTH, COOPERATION WITH OPEC COUNTRIES IN POOLING RESOURCES FOR DEVELOPMENT. CAN YOU THINK OF A BETTER MARRIAGE FOR GLOBAL ECONOMIC DEVELOPMENT THAN THE CORPORATE MANAGEMENT, TECHNOLOGY, AND MARKETING SKILLS OF JAPAN, EUROPE, AND AMERICA, LINKED WITH THE INCREDIBLE CAPITAL OF THE OPEC COUNTRIES THAT LACK THE KNOW-HOW OF THE INDUSTRIALIZED COUNTRIES?

FINALLY, IT REQUIRES A DRASTIC CHANGE IN U.S. POLICY. RECENTLY I HEARD A TALK BY A HIGH OFFICIAL OF UNIDO, THE UNITED NATIONS INDUSTRIAL ORGANIZATION. HE SAID THAT IT WAS DIFFICULT FOR HIM AND HIS ASSOCIATES TO GRASP THE MENTALITY OF THE UNITED STATES GOVERNMENT POLICIES WHICH SEVERELY DISCOURAGE ITS OWN CORPORATIONS FROM FOREIGN TRADE AND INVESTMENT THROUGH AN AMAZING ARRAY OF DISINCENTIVES TO INTERNATIONAL BUSINESS. HE TOLD OF ONE DRAMATIC CASE IN EGYPT WHERE THE UNITED STATES WAS ADVANCING A BILLION AND A HALF DOLLARS IN WHAT WE CALL AID, AND THE BENEFICIARIES WERE GERMAN INDUSTRY BECAUSE U.S. COMPANIES WERE BARRED BY SOME U.S. GOVERNMENT DISINCENTIVES.

TO GET PROPERLY POSITIONED FOR THE 80s, THE UNITED STATES MUST GET ITS OWN HOUSE IN ORDER BY A REALLY EFFECTIVE AND MEANINGFUL REORGANIZATION OF THE EXECUTIVE BRANCH FOR INTERNATIONAL ECONOMIC POLICY, INCLUDING A DEPARTMENT OF INTERNATIONAL TRADE AND INDUSTRY. ALSO, I BELIEVE REORGANIZATION OF CONGRESS WHICH IS POORLY EQUIPPED TODAY, UNDER ITS HISTORICAL SYSTEM OF COMMITTEE FIEFDOMS, TO COPE WITH THE VITAL PROBLEMS OF INTERNATIONAL TRADE AND INVESTMENT. ONE COMMITTEE DEALS WITH EXPORTS, AND ANOTHER COMMITTEE DEALS WITH INTERNATIONAL FINANCE, AND ANOTHER ONE WITH SOMETHING ELSE, AND IT IS THE CLASSIC CASE OF THE BLIND MEN AND THE ELEPHANT ALL FOCUSING ON DIFFERENT PORTIONS OF THE GLOBAL ECONOMIC ANATOMY, WITHOUT PROPER REALIZATION OF WHAT THE "HOLISTIC" SITUATION IS.

CLEARLY, THERE MUST BE RAPID END TO THE DISINCENTIVES TO INTERNATIONAL TRADE AND INVESTMENT NOW A PART OF U.S. GOVERNMENT POLICY AND A MAJOR CHANGE TO PROVIDE INCENTIVES FOR TRADE AND INVESTMENT.

HISTORY WILL RECORD A STARTLING FACT ABOUT THE MASSIVE U.S. FOREIGN AID PROGRAM - THE ABSENCE OF ANY SIGNIFICANT EFFORT BY THE U.S. GOVERNMENT TO MOBILIZE ITS STRONGEST RESOURCE IN THE WAR AGAINST POVERTY IN THE DEVELOPING COUNTRIES. THE GREATEST FINANCIAL, TECHNICAL, AND MANAGERIAL POWER IN RECORDED HISOTRY IS CONCENTRATED IN THE PRIVATE BUSINESS AND INDUSTRIAL COMPANIES OF THE U.S.A. YET, THIS LATENT POWER IS NOT BEING UTILIZED IN ANY DIRECT WAY TO SPEED THE ECONOMIC DEVELOPMENT NEEDS OF NATIONS AROUND THE GLOBE.

OUR FOREIGN DEVELOPMENT PROGRAM NEEDS A VITAL CHANGE IN ORDER TO HARNESS THE VAST POWER OF AMERICAN BUSINESS, LARGE AND SMALL, TO CREATE NEW PRODUCTIVE ENTERPRISES IN THE LESS DEVELOPED LANDS. NEW THINKING ABOUT FOREIGN DEVELOPMENT AT THIS TIME WILL NOT ONLY ENABLE NEW "BUSINESS-TO BUSINESS" PARTNERSHIPS TO BE FORMED BETWEEN AMERICAN COMPANIES AND THOSE IN THE LDCs, BUT ALSO WILL BUILD LASTING PERSONAL RELATIONSHIPS BETWEEN AMERICANS AND LOCAL NATIONAL PARTNERS THROUGHOUT THE WORLD. NOR SHOULD WE OVERLOOK THE SIGNIFICANCE OF AN INCREASED ROLE BY THE PRIVATE ENTERPRISE COMMUNITY IN FOREIGN DEVELOPMENT TO GRADUALLY LESSEN THE NEED FOR HIGH TAXES TO SUPPORT MASSIVE GOVERNMENT-TO-GOVERNMENT FOREIGN AID ASSISTANCE.

TO PARAPHRASE THE CONFUCIAN SAYING, THE ESSENCE OF WHAT I AM SAYING IS THAT AMERICA MUST DO MORE THAN GIVE PEOPLE FISH TO KEEP THEM ALIVE, AND REALLY TEACH THEM HOW TO FISH AND COOPERATE WITH THEM IN FISHING, SO THAT THEY CAN FEED THEMSELVES AS WELL AS HELP US FEED OURSELVES.

IS IT PIE IN THE SKY, IS THIS DREAMY IDEALISM, IS THIS NOT FEASIBLE? I AGREE WITH UN SECRETARY GENERAL WALDHEIM WHO, WHEN HE MET WITH OUR UNITED NATIONS INTERNATIONAL BUSINESS COUNCIL EARLY THIS YEAR, SAID THAT ALL HE SEES LACKING TO MEET ECONOMIC DEVELOPMENT GOALS IS "POLITICAL WILL!"

THE 1980s OFFER ENORMOUS CHALLENGE AND OPPORTUNITY, NOT ONLY UNCERTAINTY AND DANGER.

LET US HOPE THAT GOVERNMENTS AND THE PRIVATE SECTOR CAN JOIN TOGETHER IN MEETING THE CHALLENGE BY RESTORING AMERICA TO A POSITION OF LEADERSHIP IN THE WORLD, AND HELPING OURSELVES BY HELPING OTHERS.

Mr. BINGHAM. Thank you very much, indeed, Mr. Barton.
Before we have questions, I would like to hear from Dr. Stanley.

**STATEMENT OF TIMOTHY W. STANLEY, PRESIDENT,
INTERNATIONAL ECONOMIC POLICY ASSOCIATION**

Mr. STANLEY. Thank you, Mr. Chairman. I would like to follow Bill Barton's lead and not attempt to go through my statement systematically, but just make a few points, if I may.

First, it is perfectly clear that what Prime Minister Heath and the Brandt Commission said is absolutely correct: the world is divided economically into three groups—the North, which has excess capacity; the poor South, which has an excess of demand—and an excess of people—and OPEC, which has excess money.

ECONOMIC RECYCLING

The solution is perfectly obvious. I've been advocating it for years. I even made a modest analytical input to the Brandt Commission suggesting that we have to use the OPEC money to enable the South to buy the goods which it needs in the North. And that is what I like to call effective economic recycling, as opposed to the carrousel system of recycling where the money keeps going around the carrousel and always winds up back in OPEC. They invest it in the North, the northern banks lend it to the South, and the South uses it to pay OPEC for their oil. So we're really in a structural situation that cannot go on indefinitely this way. That much is easy. The hard part is how do you do it, how do you persuade OPEC that it's in their long-range interest.

Second, I have to say that unlike most people who regard the present prices of oil as an act of God, they are the acts of men—and men can be influenced by one means or the other. The oil is the physical property of the countries in which it is obtained. However, we lose sight of the fact that it was not OPEC's but the consumers' capital, technology, transportation, and, marketing, which transformed a 30-cent barrel of oil into a \$30 barrel of oil; which is by the way, a 10,000 percent markup. OPEC is collecting \$300 billion a year, a sum which is astronomical even by the standards of the U.S. Congress, of which roughly \$200 billion is pure "tax" even after counting all kinds of reasonable returns on investment and needs for higher energy prices. The key question is how do you get that tax used to do some of the things that the Brandt Commission report talks about?

Their proposal, essentially, oil tax is a global bargain. More reasonable oil pricing and availability is exchanged in the context of greater northern aid for the South and better security for the OPEC funds.

My statement has a proposal which goes a little bit beyond this and says let's make oil itself the vehicle for a tax. Suppose you put a 20-percent tax on each barrel of oil moving in international trade. You would have \$50 billion a year, of which, in my version of the proposal, half would be collected from the oil consumers and half from the oil producers; each would then have the option of giving half through bilateral aid channels, the other half would have to be given through multilateral channels, basically, to the oil facility at the IMF and through the World Bank.

Again, a simple solution. How do you do it? My conclusion is, you can't do it and the world is in deep trouble unless we can break the unholy alliance between the poor countries of the South and OPEC. Their self-interests have thus far kept them together in the North-South debate. But I think we have to close down the so-called North-South dialog, to the extent it has been a litany of complaints from the South against the North, and simply tell the South, "We are sorry. The oil burden that we are bearing, seriously disadvantages our citizens. We have enormous capital costs to achieve energy independence. And so we cannot help you. Go to OPEC and talk to them yourselves. Go to the World Bank and the IMF."

If we do that and the Brazilians and the Indians and the Yugoslavians start talking to the Saudi Arabians and the Kuwaitis, then I think there is a chance of striking a bargain and getting some of this "tax" money allocated properly. And if these things would be done, I would become very, very optimistic, for all the reasons that Bill Barton was outlining, in that the world not only can overcome but will do so and in a big way. But if we cannot do this or accomplish any basic restructuring of the way money now moves around the oil problem, then I think we're in big trouble.

Thank you, Mr. Chairman.

[Mr. Stanley's prepared statement follows:]

STATEMENT OF TIMOTHY W. STANLEY,* PRESIDENT, INTERNATIONAL ECONOMIC
POLICY ASSOCIATION

THE NORTH-SOUTH DIALOGUE: AN UNORTHODOX VIEW

It is an honor to be included as a witness in your special hearings on this important subject and to have the opportunity to testify following a particularly distinguished European statesman.

I have subtitled my statement, "An Unorthodox View," for reasons which will become apparent. But let me first make a caveat and a couple of assertions of principle.

The caveat is that these opinions do not formally represent the views of the two organizations I head and, in fact, some of my colleagues may not agree with all of them. So I am literally speaking only for myself.

One principle in which I believe is that cooperation is to be preferred to confrontation in all international relationships; and where it is available, it should be pursued diligently. But if we are, nevertheless, "confronted" by antagonists, whether rhetorically, economically, politically, or militarily, there may be no choice but

* Dr. Stanley is President of two nonprofit research organizations, the International Economic Policy Association and the International Economic Studies Institute. The views expressed are his own and not necessarily those of either institution.

to accept the confrontation and look to our defenses, if we are to preserve this nation's basic interests. We have tended to dismiss the South's verbal assault against the North as "merely rhetoric." But words are the precursors of action; and I believe we should have answered the rhetoric in kind.

The second principle is that humanitarianism requires doing what we can, within the limits of the possible, to alleviate the poverty and degrading misery under which significant portions of humanity live. Your subcommittees have heard too many expert witnesses over the years to require any elaboration on this point. From a moral standpoint, it is very difficult to justify the fact that an average American child's stomachache comes from overstuffing with junk food, while an average Third World child's may stem from having had no food at all. Such extremes would be politically intolerable if we lived under a world government. But we do not. We live in a world of about eight score different sovereignties--where the newest, weakest, and poorest sovereigns tend to assert their sovereignty most absolutely.

The North-South dialogue, so-called, has simply not faced up to the central reality of this conflict between absolute national sovereignty on the one hand, and the imperatives of global cooperation on the other. Nor has it faced the political reality that "rich" countries also have "poor" people who bitterly resent being taxed to provide aid to dictators, plantation owners, industrialists and other "rich" in the poor countries.

The report of the Brandt Commission, about which you have just heard from one of its principal co-authors, does attempt to deal realistically with the need for cooperation internationally on a far

vaster scale than before; but, given the Commission's makeup and mandate, it is understandably in the mold of the orthodox "development" thinking, which also characterizes the statements of both public and private witnesses who testified at your hearings last month.

One fundamental point of my critique, then, is that in the real political world that we inhabit, no outside groups can be responsible for the affairs or the welfare of another country--unless we are to go back to a colonial-type system, which seems as unlikely as a world government. Governments, whatever their character, must therefore accept the ultimate responsibility for their people themselves, although they are entitled to seek help and advice from more fortunate members of the world community.

Virtually all of the statements which your committee heard last month contained historically correct descriptions of the origins of the so-called dialogue and the demands for a New International Economic Order. Most of them characterized it as a demand for "a more equitable distribution of the world's wealth." Now I find the word "distribution" an odd one in this context. Except to the extent that wealth consists of natural resources, which are distributed by nature, wealth is created by all of the basic economic factors of production. The North has created more wealth than people, while the South has done the reverse. That single fact alone accounts for the divergencies in per capita income, not some maldistribution by a capricious fate.

I am not sure that we have done the developing countries any real favor by encouraging their search for external scapegoats to blame for their economic plight. Only they, for instance, can cope with their own population explosions.

In the post-colonial period, "Third World-nonaligned-Group of 77" ideologues (although these groups are not coterminous, they do overlap substantially) first turned to the "terms of trade" argument. Despite the fact that the validity of its thesis (that prices of primary products from developing countries continually decline over time relative to the price of the manufactured goods they import) has been challenged--and, as in most other areas of economics, one can "prove" almost any side of a case by selecting the right commodities and the right time periods--this concept is, nevertheless, a rationalization for the comprehensive international commodity program and Common Fund now being negotiated. To be preferred over buffer stocks and other price manipulations, in my view, is the type of assistance to developing commodity producers that the European Community has extended under the Lomé Convention.¹

The grievance mentality in the Third World, bolstered by Marxist theories of imperialism, has focused mainly on the only non-imperial power, the United States--which had championed their independence from colonialism! During the sixties and early seventies it grew into a major challenge to the entire international system. A 1962 U.N. declaration concerned "Permanent Sovereignty Over Natural Resources" and was used as a justification for the rash of nationalizations and expropriations which followed.

In May 1974, the U.N. Assembly adopted a "Declaration on the Establishment of a New International Economic Order," and a related

¹ Its stabilization-of-export-earnings (STABEX) program provides grants or loans to compensate for fluctuations in foreign exchange receipts and also involves some recipient country obligations as well. The rationale is explained more fully in the International Economic Studies Institute's Raw Materials and Foreign Policy, Westview Press, 1977, Chs. 13 and 14.

"Programme of Action." This was followed in December by the "Charter of Economic Rights and Duties of States," an unbalanced document in which developing countries were given rights but few duties, with the reverse applying to the industrialized countries and their enterprises. Although the United States abstained from this resolution, as did some other European countries, this was the right time, in my judgment, to have tackled some of the fundamental fallacies of the NIEO proposals head on, rather than to try to evade "confrontation" by protracted negotiations.

All of the rhetoric during this period about the "right" to expropriate property and unilaterally abrogate agreements gave encouragement to the Organization of Petroleum Exporting Countries (OPEC) in its own drive to wrest control of world oil from the oil companies and to raise prices through cartel action. Their astounding success, almost beyond the dreams of avarice, inspired a period of intensive "resource diplomacy" in which other countries also sought to explore the potential of cartel or other actions to gain economic advantages for their raw materials and, in particular, political leverage for the NIEO.

A distinguished French international economist described this phenomenon (in discussing a possible "planetary civil war" over oil) in the following terms:

"By a paradox which illustrates the strength of myths, the Arabs and the Iranians have succeeded in arousing the imagination of all the underdeveloped, to the point of neutralizing or rallying them. The poorest, frustrated in natural resources and energy...were intimidated and howled with the wolves."²

² Pierre Mayer, *Le Monde Rompu* (Paris, Fayard, 1976), (my translation).

For a time there were fears (and hopes) about other potential cartels such as for bauxite, copper, iron, and uranium; but in the end all proved to be unique; and exploitation of the raw materials issue abated somewhat in the later seventies, especially as the oil recession of 1974-75 curbed world demand for other resources.³

The peak of the confrontational period was the United Nations Sixth Special Session in the spring of 1974, which continued at the Nairobi session of UNCTAD IV in the spring of 1976. Between the two, the Conference on International Economic Cooperation (CIEC) was held in Paris. It was essentially a failure, despite efforts to link the central energy question to other LDC demands.

Subsequently, still other approaches to restructuring the international economic order surfaced, focusing in particular on the so-called transnational corporation and on the transfer of technology. The U.N. negotiations for an overall "code of conduct" have been split from the beginning on industrial versus developing country, or North-South, lines even though sensible agreements were reached without too much difficulty on voluntary "guidelines" among all of the OECD countries.

In UNCTAD there have been two code negotiations, one on restrictive business practices and the other on the transfer of technology. To the surprise of many observers, agreement actually was reached on a "Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices"--mainly because the principal

³ It may return as an issue, however, if demand rises to a level that cannot be met by existing production. This is a distinct possibility given the environmental constraints in the U.S. and the political risks of overseas mining development. The underinvestment in nonfuel minerals is a problem warranting serious study, including reconsideration of a multi-lateral resource development bank.

negotiators were governmental antitrust types; and it is due for adoption as a U.N. resolution in the fall. The United States has agreed to this code despite the conference's peculiar failure to specify explicitly that the code is voluntary and not binding in nature, which has been one of the key U.S. conditions in all such negotiations.

I am not as enthusiastic about the results of this particular negotiation as is our State Department, which regards it as "embodying pro-competitive, free market concepts" which "can promote fair competition in international trade;"⁴ for I believe it mixes up U.S. antitrust and European Community abuse-of-a-dominant-market concepts and applies them as vague legalisms--and mainly to countries which will continue purposely to limit competition!

The code's real value--or threat--depends upon how it is actually applied in third world country negotiations with MNC's.

In the experience of some, these countries often make practicing some of the very actions prohibited by the code, such as market allocation, a condition of getting permission to do business! It is, I believe, one more example of the Alice-in-Wonderland world of the United Nations. Although the code is supposed to apply to government as well as private enterprises, it does not deal directly with State-sanctioned cartels such as OPEC. So Tweedle Dum can produce a United Nations resolution which will be widely applauded for condemning restrictive business practices (especially those which impede economic development) while Tweedle Dee is silent about OPEC--the greatest "restrictive business

⁴ Department of State Press Release No. 106, April 29, 1980.

practice" of modern times--which has had a devastating effect on developing countries. (As a member of the governmental advisory committee on these subjects, I was never sure whether I was supposed to be the White Rabbit--or the Mad Hatter!)

The interest in technology as a new kind of "magic talisman" which might be a shortcut to development culminated in the United Nations Conference on Science and Technology for Development held in August of last year which former Ambassador Harlan Cleveland characterized as a "predictable collision." But although it may have produced some greater realism in the approach to the subject, it otherwise has not accomplished very much. This is perhaps because the developing countries find it hard to accept the conclusion of one study that:

"Much can and should be done to maximize technology's contribution to development; but little will be done unless both the 'northern' and 'southern' sides of the transaction work with, rather than against, the underlying economic currents, and thoroughly understand the realities of international business."⁵

Despite the innumerable dialogues conducted in innumerable forums, the Southerners have almost willfully misunderstood the nature of the market system and the way in which international business operates. In particular, their negotiators purport to believe that home governments can compel businesses to transfer technology and know-how, develop labor-intensive jobs, etc., which it cannot in fact do under our system.

Host country governments can and should work out their development plans in cooperation with industry, and look to foreign investors such as transnational corporations to cooperate with them. And those who

⁵ Harlan Cleveland, Foreword to Technology and Economic Development: A Realistic Perspective, Samuel M. Rosenblatt, ed., Westview Press and the International Economic Studies Institute, Boulder, Colorado, 1979.

have been most successful have been those who understood that such investors will not be present if they are not allowed to make a reasonable return on their investment. But for those seeking more of a "free ride," it may be necessary to go back to the sixties concept of "self-help" as a criterion of external assistance.

The United Nations Centre on Transnational Corporations was an outgrowth of the original Group of Eminent Persons which, in turn, was a response to widely expressed concerns about MNC's. In addition to its work on the Code of Conduct, the Centre has itself spawned a range of activities designed to help developing countries deal with international business which, in the opinion of some observers, tend to perpetuate the myth that such enterprises are part of the international "aid" system. Its staff has also been said to be biased against private enterprise in principle.

Another important part of the NIEO assault was the attack on the underlying international legal system itself, especially those parts related to state responsibility with regard to the property of foreigners. This has been rationalized on the ground that many developing countries were not independent when the principles of international law took form. This seems analogous to arguing that a person is not bound by any law enacted before his birth! It is obviously essential for the future of the international economic system that it rest on the principle that freely undertaken obligations--public or private--are to be honored, with only such rare exceptions as force majeure. Yet the North has acquiesced too many times in flagrant violations of international due process of law.

Professor Sidney Weintraub has written a thoughtful article on "What Life is Left in the North-South Dialogue?"--a dialogue which he characterizes as a confrontational process:

"In the large plenary fora there is no substitute for the unity of the South to achieve concessions; and there is no rationale for unity unless it is confrontation."

He explains that:

"It is a negotiation for a series of concessions, unrequited except in the abstract sense that the rich will be better off if the poor are better off.... Such a negotiation has no end as long as some countries are poor and others are rich. Any concession to the South is merely a prelude for the next demand."

Even with Professor Weintraub's comparatively sympathetic view of the process, he concludes that:

"It is fair to say that rarely has so much effort, so much scurrying around the globe, so many words on the record, and so many resolutions accomplished so little in what otherwise has been a time of profound change."

One wonders, therefore, whether the game is worthwhile. The endless round of international negotiations has seemed to this observer to have had little relevance to the transnational business that is actually being done on a pragmatic basis in the southern countries, to whether their internal policies are good or bad for economic development, or whether their own internal distribution of wealth has any elements of equity.

The game of diplomatic maneuver which the North-South dialogue has become has achieved a very few elements of "progress." But their

⁶ The World Economy, Vol. 2, No. 4, February 1980, p. 453.

true economic significance seems rather smaller than claimed by public officials; and the game has provided the rhetorical basis for countries to try to escape the basic responsibility for their own development, by trying to fix it on the industrial countries. For reasons that escape me, the Soviet Union has managed to get away politically with its own claim that development is only a responsibility of capitalists and former colonial countries.

Mr. Chairman, I conclude this part of my statement with the very basic question of whether, if the North-South dialogue is really a kind of "cop out," prolonging it serves any useful purpose at all. I am not, of course, referring to realistic negotiations about pragmatic subjects in the IBRD and IMF, in the GATT, in the FAO and other specialized agencies of the United Nations. But I do question the use of highly politicized fora such as the ECOSOC, UNESCO, UNCTAD and the General Assembly. The one country-one vote principle has led these organizations to the brink of irrelevance, for two small islands with a few thousand inhabitants can out vote the United States--or China for that matter. Thus, I wonder whether the forthcoming UNGA Special Session should not be the occasion for a major shift in "Northern" tactics--and policy.

The United States does not have to withdraw from any of these organizations; it can simply fail to be represented (except perhaps by a non-voting note taker)--and we should encourage likeminded allies to do likewise--at any "confrontational" North-South discussions which it judges unlikely to reach an acceptable and useful outcome.

The developing countries could, of course, go on passing resolutions castigating the industrial nations in their absence; but such a tactic

might, by removing the interlocutor, de-emphasize the "North-South" aspects sufficiently for the much needed "South-South" dialogue to develop.

The North has conducted its collective diplomacy so badly that the South has been able to maintain a united front, despite its wide diversity of interests, and allowed OPEC to be, in effect, its sword. But instead of the funds extracted by the oil weapon benefiting the South, OPEC's policies have instead siphoned off the wealth of North and South alike which might have enabled the LDC's to make real progress.

I thought that it might be useful for this committee to hear at least one witness who thought that the time had come for the North to stand up in the United Nations and tell the South: "Don't talk to us about economic justice and wealth redistribution. Go and talk to OPEC. We no longer have the resources to help you, because OPEC is taking it! We have to deal not only with our own oil costs (and their effects on our own 'disadvantaged' people) but also with the capital costs of achieving energy independence. So we cannot also deal with the problem of your oil bills. You must work out with OPEC, or the IMF-World Bank, the necessary arrangements to finance them."

Americans point with pride to the fact that since World War II we have provided over \$200 billion in all forms of foreign assistance. OPEC now extracts much more than that from the world every year--over and above the last freely negotiated oil prices, even adjusted for inflation.

I am not being critical just of this Administration, but rather of a whole line of policy which runs back through several administrations

and to the intellectual establishment which I believe has misperceived the problem or at least the nature of the world system. One finds in the literature⁷ frequent analogies in the North-South context to the earlier struggles to establish organized labor's power in industrial countries and to the need for "affirmative action" to counter American racial discrimination. I am troubled by these analogies. They are drawn from the economic and social struggles within a single society governed by a common set of laws and institutions, including binding judicial procedures and police powers. These are lacking, by definition, in the kind of a world I described at the outset. Yet the mis-application of these domestic examples in the North-South international context has confused our ability to respond.

⁷ See, e.g., Weintraub, *supra*, and the views of Robert Herzstein in *The American University Law Review*, Vol. 24, Summer 1975, Nos. 4-5, p. 1087; my own views on the subject are contained on p. 1106 of that issue.

II.

Let us now turn more specifically to OPEC and its responsibilities. Books have been written and more will be--and they are needed--on how one of the most extraordinary series of events since World War II led to a quiet and bloodless victory by a handful of quasi-feudal, semi-developed countries over the world's greatest industrial powers. Again, I think we have been blinded by the rhetoric emanating from the Third World to the reality that the Arab oil embargo of 1973 was nothing less than an economic Pearl Harbor!

Let us concede that oil prices were probably too low for too long; that the world will, in the next millennium, face a transition to renewable energy sources which will require high prices; and that a country should be able to sell "its" resources for the highest market price obtainable. But the market is not operating effectively; and the "value-added" which turns a 30-cent barrel of Persian Gulf oil into a \$30-plus commodity is entirely a function on the supply side of the capital, technology, transportation and marketing of the industrial countries and their oil companies. On the demand side, it is a function of the consumers themselves. For the oil producers, of course, it is a classical monopoly-type market.

From the consumers' point of view, the oil majors did a superb job for many decades in providing secure, low-priced energy which permitted the era of rapid growth, which has now passed probably forever. But once the producing countries discovered that they could divide the oil companies from each other--and from their home governments--and get away with breaking solemn commitments entered into merely months previously, without retribution of any sort, then the genie was out of the bottle. The blame for

Western (Northern) shortsightedness must be shared among oil companies, governments, and consumers. America figures prominently in all three counts. Nevertheless, OPEC has now gone the Marxist slogan one better! Instead of "From each according to his ability and to each according to his need," it has become, "From each according to his vulnerability and to each according to his greed!"⁸

Not only was OPEC's market power achieved in violation of international due process of contract law, but the quintupling of prices stemmed from the Arab embargo during the 1973 war, a type of action which entitles those affected to co-belligerent status under international law. Once the cartel's dominant market power was acquired, it has certainly been "abused" by even the most liberal definition applied by the European Community. And although a suit in the United States against OPEC was thrown out of court for lack of jurisdiction, it seems clear that if the cartel's activities were being carried out by companies drilling, let us say, in shallow seas where no element of national sovereignty was involved, all would face major U.S. antitrust penalties for anti-competitive practices.

⁸ There is no way of justifying a \$35 per barrel price. If competitive forces among oil producers were unleashed, the price would probably come down almost as rapidly as it rose. Even taking the 1973 negotiated price level of under \$3 and doubling it, then doubling it again (as a "non-renewable resource" charge) and indexing it for inflation would yield only about \$20 per barrel. "Replacement cost" pricing depends on the time periods involved, and is partly a function of the legal aspects discussed earlier. In 1980, the world will be paying OPEC some \$300 billion--roughly 10 billion barrels at \$30 for its oil. The cost of production varies widely; but in the Arabian peninsula it is lifted for a few cents a barrel. So it is being sold at what amounts to a ten thousand percent mark up, an "obscene" profit if there ever was one.

We are now in a second stage of market power abuse, which features a "negative elasticity" of supply. Prices have reached such astronomical levels in relation to the needs of less populated producing countries that we are starting to see a "backward bending" supply curve: the higher the price, the less is produced, and the higher still goes the price! This is rationalized by OPEC (and in the Brandt Commission report as well) as prudent management of resources which may be more valuable in the ground than those financial or other assets for which they are exchanged. The extent of the monopoly power is revealed by the fact that even with a current glut of oil, OPEC is still able to raise prices. They are, in effect, hitched to a one-way rocket--up. The only force of gravity which can eventually pull it down is the massive development of non-OPEC energy which is a long-term proposition. Although it is essential to get started on all avenues of approach with top priorities, we have wasted seven years, and we are still going to be dependant on Middle East oil for a decade, if not longer.

I am dwelling upon OPEC and the oil-energy dilemma because, while there are many other domestic and international problems, this to me is the absolute *sine qua non* of having a functioning international economic system during the transition period which will take us to the next century. There is plenty of oil in the world to last that long and well beyond; but even at present price levels, the lead times for producing it are extraordinarily long and the short-term elasticities of supply--like those of demand--are quite rigid.

Oil is responsible for much, though not all, of the inflation with which the industrial world is afflicted. The producers are then heard to complain that their gains are being eroded by the inflation which they

have themselves created! In effect, the world chose in 1974-76 to "inflate up" to the price of oil, rather than to either confront the cartel or depress their economies; and the price of oil then ratcheted still higher to compensate. Since then, the preference has been for deflationary policies, so the excise tax effect of oil payments to OPEC has depressed the Western economies by several percentage points from past growth rates and will keep them at the low 1 to 2 percent plus range for the foreseeable future. Periodic recessions and shallow recoveries seem likely throughout the eighties.

This stagflation scenario, of course, makes it far more difficult to get on with trade preference systems to assist developing countries-- which I do support; and it makes it politically much more difficult to increase aid levels. (I favor aid, although I would like to see much more of it given bilaterally as credits for the purchase of American goods instead of channeled through the cumbersome international aid bureaucracies. While I would urge Congress to pass any legislation still holding up financing for the multilateral lending institutions which represents U.S. commitments, I believe Congress should play a more active role with respect to any future commitments made by U.S. officials to international organizations, and in particular to take into account the extent of OPEC countries' participation.)

In addition to these adverse effects on the developed countries, with their unfortunate side effects on the LDC's, OPEC has had a direct and major impact on the latter. Virtually all of the aid they have received has been offset by the higher costs of imported oil; their debt burdens are at the borrowing limit in some cases and there are serious questions

as to whether the private banking system can again recycle to LDC's vast amounts of financial debits and credits as they did in 1973-74. The present developing country debt mountain is over a quarter of a trillion dollars and OPEC's net external assets may exceed half a trillion dollars by 1985. The system may not be able to handle liquidity and debt structures of that magnitude. A couple of years of OPEC surpluses of \$125 billion or more could cause a breakdown. The North has all it can do to pay its own oil bills and can no longer help the South pay for its imported oil, for which more direct help from OPEC is needed.⁹

The major developing countries like Brazil with heavy debt service and oil payment obligations lack the foreign exchange with which to import essential capital goods or conduct other international trade, thus further pushing the world into its stagflation quagmire.

In my judgment, we have reached a point of dangerous structural imbalance: the developing countries have unlimited demand but extremely limited resources, the industrial world has underutilized capacity but low demand, largely as a function of the energy crisis; while the handful of oil producers has most of the money--enough to buy all the companies listed on the New York Stock Exchange in a few years more.

What, then, is to be done? In this personal unorthodox view, it is not too late to begin to undo the false directions we have taken in handling the North-South dialogue. We must bring the developing countries face to face with the proposition that they are entitled to expect reasonable help

⁹ See F. L. Widman, "\$125 Billion OPEC Surplus Seen," *Journal of Commerce*, June 13, 1980. The non-oil LDC's are expected to pay about \$40 billion for oil in 1980. By contrast, total U.S. aid in FY 1980 is only about \$3 billion.

but not NIEO-type panaceas from the industrialized world, and that they must bring political pressure to bear against the OPEC countries, individually and collectively to work out a "regime" for international oil for at least the next decade. And we should tell OPEC that there had better be such a regime, because if one cannot be agreed in the interests of all, the scramble over oil withheld from production may become so fierce that the producers could lose by force their ability to determine prices and availability unilaterally.

If one grants--as I do not-- the justice of the original oil price escalation, a case can be made that Saudi Arabia has acted with reasonable restraint, in the circumstances, in that it is now producing more oil than its own narrow economic interests call for. But it must also be recognized that Sheik Yamani and others have skillfully used "salami tactics" against the West, claiming credit for efforts to "help" while failing to use the country's vast market power to restore discipline and responsible pricing to the market.¹⁰ OPEC collectively has a surge capacity as high as 40 million barrels a day, a sustainable production capacity of up to 35. But last year it produced only 30 and exported 28, and is threatening to lower for "conservation" reasons which are often merely a euphemism for further price gouging.

Whatever one's view of Saudi behavior, it is clear that the enormously weighty interests of the entire world community rest on the rather fragile

¹⁰ Yamani has himself admitted that: "To ruin the other countries of OPEC, all we have to do is to produce to our full capacity; to ruin the consumer countries, we only have to reduce our production." The New York Times Magazine, September 14, 1975.

base of the Saudi Arabian royal family. In a region that has seen many wars and much turmoil, this posture involves risks no prudent government should accept.

If, then, the status quo is unstable and risk prone for all of the major parties at interest, and if the oil and energy issue alone is more critical for the developing countries than all other items on the North-South agenda, it seems inescapable that there must be a bargain struck of some sort. As the Brandt Commission indicated, after explaining the dangers ahead, "We therefore have no hesitation in putting forward a global energy strategy as a matter of the utmost urgency."

The core of the Brandt Commission proposal is for an oil producer-consumer understanding which includes: "assurance of regular supplies of oil, more vigorous conservation, more predictable changes in oil prices, and the development of alternative energy sources."¹¹ All of this is in the context of larger scale transfers of resources to the developing countries and possibly a special tax on arms trade for development assistance, plus many other features developed in the report's 17 chapters.

It is my understanding that one of the objections that has been raised to the Brandt proposals in the U.S. Government is that all of the eggs would then be in the basket of one comprehensive agreement--which could not be enforced. That, however, appears to me to miss the point: It is only by a new, comprehensive, and widely based agreement that it would be politically feasible to take strong sanctions against violations and thus to enforce it on a multilateral basis. Moreover, I believe--as evidently

¹¹ North-South: A Program for Survival, Report of the Independent Commission on International Development Issues under the Chairmanship of Willy Brandt, MIT Press, Cambridge, April 1980, p. 170.

do the authors of the Brandt report--that the arrangement should include all countries, including the Soviet Union, as the world's largest oil producer and second largest exporter. This, of course, is fraught with political complications and compounded by the American tendency to see a threat only in the one-dimensional East-West or military security sense and to ignore the North-South economic security threats stemming from our energy vulnerabilities.

However, if an agreement could be reached with the major oil producers in which the Soviet Union and the United States both participated, the two superpowers, instead of checkmating each other would be mutually reinforcing; and very few countries would care to risk reneging on such an agreement. Even an Iranian type of disruption should be easier to manage on that scenario.

Despite the attractiveness of some of the ideas in the Brandt Commission report, one must nevertheless be skeptical about their practicality. An economic journalist who has interviewed officials in OPEC countries has concluded, "The arrogance of the OPEC producers defies all reasonable attempts, such as those made by the Brandt Commission, to find a deal or compromise which will serve the long-term needs of the consuming countries as well as OPEC."¹² Notwithstanding, there seems to be no better alternative than to try.

¹² Hobart Rowen, The Washington Post, May 1980.

That is why pressure from the non-oil developing countries in the South--the Brazils, the Indias, and the Yugoslavias--is needed along with efforts from the West to persuade the key oil producers about the dangers they face in the absence of such an agreement, covering at least a decade.¹³

We have already seen that oil is unique, it is absolutely essential; and it is in dispute as to the allocation of costs and the windfall benefits from high price levels as between producing countries and industrialized consumers. Moreover, the high costs of oil are very much at the root of the South's development problems and of the North's ability to develop and provide technology and to maintain the required security posture. It is increasingly coming to be accepted that the global energy transition must be managed on a global basis. Is there not, then, an argument for making oil itself the commodity to be subjected to a special development tax? This could be in lieu of, or even in addition to, the tax on armaments proposed by the Brandt Commission.

Let us suppose, illustratively, that a tax were placed on each barrel of crude oil. This could be done in various ways, with a lower tax on each barrel produced (outside the poorest countries) or a higher one on each barrel moving in international trade. This would, of course, create important incentives for conservation and encourage a shift to other untaxed energy sources. Let us further suppose that under the assumed agreement oil prices were stabilized on a slightly lower real basis, i.e., adjusted

13. Alternatively, if Saudi Arabia would be willing to pump oil at its maximum sustainable capacity for a couple of years, long enough to drive prices back down to affordable levels, and permit competitive forces to operate once again, the coming crises might be avoided. But this scenario seems unlikely given Saudi vulnerability to intra-Arab pressures and their continuing concerns with the Palestinian problem.

for inflation, at a floor-ceiling range centering on \$25 to \$30 a barrel. This would require agreement by producers as to the minimum production levels they would maintain individually and collectively and by consumers to stay within the IEA's targeted limits. A 20-percent tax on internationally traded oil would then generate \$5 to \$6 per barrel; and with OPEC exports currently about 10 billion barrels a year, \$50 to \$60 billion would theoretically be generated for development purposes. (The tax could be only one-third as high if all oil were involved.) The burden of the tax should be shared by the industrialized oil consumers and all but the poorest oil producers. Half would be collected as a levy by the importers and half as a severance tax by the exporters.

An international monitoring agency would be needed to supervise the collection and allocation of funds. Each country so electing could allocate up to half its total "development tax obligation" through its own bilateral aid programs, thus permitting it to be tied to donor country procurement, or allowing producers to contribute to special regional development organizations. Approval of the bona fide economic assistance character of the contribution would, of course, be needed from the international agency. But the other half should be required to be paid over regularly in part to the IMF's special facility for financing LDC oil debts, and in part to the World Bank, IDA and the regional development banks for impartial disbursement. The allocation formula should be renegotiated every two or three years.

Even more complicated variants are conceivable, such as a "progressive" tax that would increase in amount if prices rose beyond their target bracket, and where the allocation of the tax as between producer and consumer would

also shift so that the higher the price, the larger the producer's share of the tax. This would establish a system of incentives for retaining prices within the targeted zone, which might itself be adjusted upward by agreement every two or three years.

The addition of some \$60 billion a year into the world economy of the 80's would restore a basic economic equilibrium between the three key groups: industrialized oil consumers, the rich oil producers, and the LDC's. It would reestablish growth at the needed levels and stimulate international trade, thus recycling the money far more effectively than under the present system. This prospect should be enticing enough for the developing countries of the "South" to bring strong political pressure to bear on the major oil producers. For their part, the producers would get an assurance of a stabilized income adjusted for inflation; a de jure acceptance of the enormous market power they now have seized; a hedge against any precipitous price decline, and above all, a reduction of security dangers already noted. Their objectives of reducing the drain on their non-renewable resource would also be served. They would give up some otherwise obtainable revenue as the price of their added financial and military security.

The industrial countries would have a higher oil burden, but under the price-constrained assumption it would probably be no higher than if price leapfrogging resumes following the current recession. They, too, would benefit from added assurance and security of supply; and they would be direct beneficiaries of the petrodollars that were being recycled through developing country purchases.

In conclusion, Mr. Chairman, I would recommend that the United States seek to make energy the centerpiece of the Special U.N. Session on Development¹⁴ to see whether some broad framework for a global bargain, whether this oil tax for development idea or the Brandt Commission's concept, cannot be developed. Chances seem better now when reduced demand has brought a better balance to the world oil market than they will after the recession. If a deal can be made, then the entire world has a relatively bright future. If it cannot, then I remain very pessimistic. But I would still withdraw from the North-South dialogue, and let the developing countries themselves "confront" OPEC for a change.

Thank you.

14. There is also a U.N. Conference on New and Renewable Sources of Energy being planned; but its scope is technical, and what is required is political.

Mr. BINGHAM. Thank you very much, Mr. Stanley. Your written statement will appear in full in the record, without objection.

DIRECT ASSISTANCE FROM OPEC

You have made a very startling suggestion. Do you believe that this puts you in controversy with the thrust of the Brandt Commission report?

Mr. STANLEY. Not with its objectives but with its tactics. This was, of course, a negotiated agreement, mostly with people from the South trying to maintain this bilateral alliance between OPEC and the non-oil-producing developing countries. And my objective is to break that up, so we can achieve the same objectives the Brandt Commission would like to achieve. I just do not think it is going to work their way. I do not think the will is present to do it.

Mr. BINGHAM. You're suggesting, in effect, that the way to do it is a kind of shock treatment—simply saying no more direct assistance from the North?

Mr. STANLEY. I wouldn't cut it all off. I would try to keep our existing commitments. But at the U.N. special session, if I were counseling our government—and in a sense I am, since I sit on the Advisory Committee for International Investment, Technology, and Development—I would say let's try to use the special session on development to make this point, that the only way that we're going to get out of our problem is to persuade OPEC that it must, in effect exchange the maximum revenue it extracts for their own physical security. At the rate we're going I simply cannot give any regime in a major oil-producing country a very long half-life. I'm not saying whether the threat would come from the West or the East or other countries in the South. But it seems to me that the prudent man sitting in the position of the Saudi Arabian royal family has got to say, "We have some very strong interests in helping the world system survive, more than maximizing our return on our oil."

Mr. BINGHAM. In a sense, your approach involves an effort to arrive at a direct means of transferring resources from the OPEC countries to the other countries of the South, whereas the Brandt Commission report suggests ways of doing this in a roundabout fashion, is that correct?

Mr. STANLEY. Yes, exactly.

ROLE OF PRIVATE INVESTMENT

Mr. BINGHAM. Mr. Barton, in your written statement, it seems that you emphasize very heavily the role that you see for multinational companies, and private investment in general, in the development of the Third World. Is this a fair statement of your position? What is your position with respect to large increases in transfer payments from the governmental budgets of the North to the development of the Third World?

Mr. BARTON. Sir, I believe that there's no need for enormous new transfers of payments from the industrialized countries, especially from the U.S. Government, but rather that ways and means can be developed, and it may involve a whole new mechanism in the Government, helping to attract and involve the multinationals of

America, Europe, and Japan in developing countries and using the capacity they're not using today in their technology and investment and management skills.

So, no, I am not suggesting some enormous new appropriation, certainly not a lot of grants, but much greater involvement of the private sector. Historically, there has been a lot of investment by American and European and now Japanese companies. There hadn't been a lot until recently, but they moved out of the export era into the multinational era. The governments have stood aside on this. In the U.S. Government, let's look at the Overseas Private Investment Corp: I just received some materials I sent to Senator Javits and the late Senator Humphrey in the 1960's, who were very interested in trying to get the private sector more involved. They could not get the various administrations and even the Congress to move strongly to back this concept. I really think that it was part of an attitude among a number of people involved in "aid," of an unfavorable attitude toward the private sector. I believe that we have to take a whole new look to get the private sector companies involved in the developing world.

One can say, "Yes, but what about political risk?" And, of course, that is where negotiations have to come at the special session, because companies do not want to put huge sums at stake, and neither do banks, without some protection against risk. This is where you get into the Code of Conduct negotiations, where some countries say, "We are sovereign and we will never be controlled by anything." That's legalistic and historical. If LDC's turn to something like the World Bank Center for Investment Disputes, which is almost never used, it could give them economic benefits from MNC's concerned about political risk. We need some new governmental actions to get greater involvement of the private sector, and not a great Government transfer of funds.

FEAR OF EXPORTING JOBS

Mr. BINGHAM. As you may know, I was the author of the bill to extend OPIC in 1977, and we had a tough time getting it through the House, mainly because of the intense opposition of organized labor. And that opposition reflects a fear on their part that this type of investment will encourage the growth of industries in the Third World that are going to export their products back to this country and create a problem of competition with our industries. So the opposition to that kind of private investment in general, I think, reflects not, as you suggest, a prejudice against company investments in general, but the protectionist feeling that is so widespread today. And I don't, frankly, know how you overcome that.

Mr. BARTON. I certainly sympathize with their position. But I really think that the trade position of AFL-CIO has been negative about foreign investment, and they want to hold what they have.

But I believe, as Mr. Heath said, too, that Government working with trade unions and communities and companies has to get us into a restructuring for economic adjustment.

In Japan I visited one of the largest textile firms, and they now have great subsidies from the Japanese Government, enormous assistance in research and development, et cetera, to, in effect, get

out of textiles. So Japan has its Fukui section just like our South, in textiles, but they're not resorting to protection of that sort. They're now going to throw companies and workers to the wolves, per Adam Smith's theory, but they have a planned program over the years, to get textile companies into high technology and take care of workers communities, and companies, to get into other productive industry.

I do not blame the labor unions for seeking political protection if the Government is not going to assist them and their companies and communities into other industrial fields through meaningful adjustment assistance. If you don't do that you have to face serious protectionism. Then, workers may say, "Instead of being a loom worker at this salary, I might make semiconductor chips and get more business because of an investment in a developing country." It is complex. It is difficult. We haven't done a lot of it in our history. But I am afraid we have to as the global economy really becomes global, because protectionism will leave us behind the Japanese and others in a hurry.

Mr. BINGHAM. Mr. Stanley.

Mr. STANLEY. I wanted to comment that I think, in a sense, the entire U.N. series of exercises related to transnationals and the American labor unions' problems with multinational companies are similar. They both perceive multinationals as a problem. And I think what Mr. Barton is saying, and I also believe, is that they can be part of the solution. There are problems, but basically it is the private sector that creates wealth and so MNC's should be made more a part of the solution.

I recall testifying here, Mr. Chairman, when you were trying to shepherd the OPIC extension through, and I was aware of the organized labor feeling. One statistic I might just mention—based on old data, but until a new Commerce study comes out we won't have anything better—is that if you exclude transportation equipment from Canada, which is a very special case because of the automotive agreement, more than 96 percent of what American manufacturing affiliates abroad sell is sold either in the country of production or in third countries, and less than 4 percent comes back here. So it's not the enormous "export platform" that it has been misperceived to be.

ROLE OF INTERNATIONAL FINANCIAL INSTITUTIONS

Mr. BINGHAM. I would like to ask you, Mr. Stanley, what your approach would mean in terms of continuing our support of the international financial institutions.

Mr. STANLEY. I am favorable toward continuing support. I think certainly the commitments that have been made need to be kept. I would feel, however, that in the future committees like yours should have a greater policy planning role in sitting down with the executive branch and talking things over before they go out and make commitments that they then come back and expect you to fulfill.

My other comment would be, we certainly are going to have to support those two institutions, the IBRD and IMF, because they play an important role. But for a given amount of U.S. taxpayers' aid, I would rather see a much larger portion of it channeled

through bilateral programs rather than through the enormous international foreign aid bureaucracies, for one reason, because most of it would go for credits to buy U.S. goods; whereas what Bill was saying was that a lot of our money to Egypt went to buy German goods.

ADVANTAGES FOR OPEC NATIONS

Mr. BINGHAM. Getting back to your thought about trying to achieve a direct resource transfer from the OPEC countries to the Third World, how do you make this attractive to OPEC? The indirect scheme involves some form of return on their capital when they deposit their funds in banks and the banks then loan the funds to the Third World. As Mr. Heath pointed out, that is approaching a dangerous level and can't very well go on, and there is a problem of what they're going to do with those funds at this point. I do not quite see how you make a solution attractive to them, which solution just involves a way of transferring their funds without providing them with some form of return on their investment.

Mr. STANLEY. I do think you have to stabilize oil prices within some reasonable range, and you have to stabilize them in real terms, so that they are adjusted to inflation, which is one advantage they would get. They would also be getting by that type of deal a hedge against any precipitant drop in prices, which may be unlikely, but it has been a source of some concern to them. And they get the additional security guarantee that the animosity which I think is coming toward them from the rest of the Third World would not affect them. I think it is partly a matter of constructing a deal where some legitimate financial interests of theirs, whether they are indexed bonds, as Mr. Heath suggested, indexed prices, or greater security of their investments are satisfied. Then the only answer to your question becomes the kinds of political pressure that I think they could not stand up to once the link between OPEC and the Group of 77 is broken, if it can be broken.

Mr. BINGHAM. Thank you very much, gentlemen. We appreciate your being with us today. I'm sorry that we had to keep you waiting so long; thank you again.

The subcommittee stands adjourned.

[Whereupon, at 12:32 p.m., the subcommittee adjourned, to reconvene at the call of the Chair.]

APPENDIX 1

SUMMARY OF RECOMMENDATIONS OF THE INDEPENDENT COMMISSION ON INTERNATIONAL DEVELOPMENT ISSUES

THE POOREST COUNTRIES

An action programme must be launched comprising emergency and longer-term measures, to assist the poverty belts of Africa and Asia and particularly the least developed countries. Measures would include large regional projects of water and soil management; the provision of health care and the eradication of such diseases as river-blindness, malaria, sleeping sickness and bilharzia; afforestation projects; solar energy development; mineral and petroleum exploration; and support for industrialization, transport and other infrastructural investment.

Such a programme would require additional financial assistance of at least \$4 billion per year for the next two decades, at grant or special concessional terms, assured over long periods and available in flexibly usable forms. New machinery is required on a regional basis to coordinate funding and to prepare plans in cooperation with lending and borrowing countries. Greater technical assistance should be provided to assist such countries with the preparation of programmes and projects.

HUNGER AND FOOD

There must be an end to mass hunger and malnutrition. The capacity of food-importing developing countries, particularly the low-income countries, to meet their food requirements should be expanded and their mounting food import bill reduced through their own efforts and through expanded financial flows for agricultural development. Special attention should be given to irrigation, agricultural research, storage and increased use of fertilizer and other inputs, and to fisheries development.

Agrarian reform is of great importance in many countries both to increase agricultural productivity and to put higher incomes into the hands of the poor.

International food security should be assured through the early establishment of an International Grains Arrangement, larger international emergency reserves, and the establishment of a food financing facility.

Food aid should be increased and linked to employment promotion and agricultural programmes and projects without weakening incentives to food production.

Liberalization of trade in food and other agricultural products within and between North and South would contribute to the stabilization of food supplies.

Support for international agricultural research institutions should be expanded with greater emphasis given to regional cooperation.

POPULATION: GROWTH, MOVEMENT AND THE ENVIRONMENT

In view of the vicious circle between poverty and high birth rates, the rapid population growth in developing countries gives added urgency to the need to fight hunger, disease, malnutrition and illiteracy.

We also believe that development policies should include national population programmes aiming at a satisfactory balance between population and resources and making family planning freely available. International assistance and support of population programmes must be increased to meet the unmet needs for such aid.

The many migrant workers in the world should be assured fair treatment, and the interests of their home countries and the countries of immigration must be better reconciled. Governments should seek bilateral and multilateral cooperation to harmonize their policies of emigration and immigration, to protect the rights of migrant workers, to make remittances more stable and to mitigate the hardships of unanticipated return migration.

The rights of refugees to asylum and legal protection should be strengthened. We also believe that commitments to international cooperation in the resettlement of refugees in the future will be necessary to protect countries of first asylum from unfair burdens.

The strain on the global environment derives mainly from the growth of the industrial economies, but also from that of the world's population. It threatens the survival and development opportunities of future generations. All nations have to cooperate more urgently in international management of the atmosphere and other global commons, and in the prevention of irreversible ecological damage.

Ocean resources outside the "exclusive economic zones" of 200 miles should be developed under international rules in the balanced interests of the whole world community.

DISARMAMENT AND DEVELOPMENT

The public must be made more aware of the terrible danger to world stability caused by the arms race, of the burden it imposes on national economies, and of the resources it diverts from peaceful development.

The mutual distrust which stimulates the arms race between East and West calls for continuing the process of detente through agreements on confidence-building measures. All sides should be prepared for negotiations (including those on the regional level) to get the arms race under control at a time before new weapons systems have been established.

The world needs a more comprehensive understanding of security which would be less restricted to the purely military aspects.

Every effort must be made to secure international agreements preventing the proliferation of nuclear weapons.

A globally respected peace-keeping mechanism should be built up—strengthening the role of the United Nations. In securing the integrity of states such peace-keeping machinery might free resources for development through a sharing of military expenditures, a reduction in areas of conflict and of the arms race which they imply.

Military expenditure and arms exports might be one element entering into a new principle for international taxation for development purposes. A tax on arms trade should be at a higher rate than that on other trade.

Increased efforts should be made to reach agreements on the disclosure of arms exports and exports of arms-producing facilities. The international community should become more seriously concerned about the consequences of arms-transfers or of exports of arms-producing facilities and reach agreement to restrain such deliveries to areas of conflict or tension.

More research is necessary on the means of converting arms production to civilian production which could make use of the highly skilled scientific and technical manpower currently employed in arms industries.

THE TASK OF THE SOUTH

In any assault on international poverty, social and economic reforms within developing countries must complement the critical role to be played by the international environment for development, which itself needs to be made more favourable.

In countries where essential reforms have not yet taken place, redistribution of productive resources and incomes is necessary. A broader package of policy improvements would include expansion of social services to the poor, agrarian reform, increased development expenditures in rural areas, stimulation of small-scale enterprises and better tax administration. Such measures are important both for satisfying elementary needs and for increasing productivity, particularly in rural areas.

The full potential of the informal sector to contribute to economic development requires the provision of increased resources in the form of easier access to credit, and expanded training and extension services.

The strengthening of indigenous technological capacity often requires a more scientific bias in education, the encouragement of a domestic engineering industry, increased emphasis on intermediate technology and the sharing of experience.

Improved economic management and the increased mobilization of domestic resources are essential to the promotion of development. In many countries there is scope for improvements in such fields as taxation policies, public administration and the operation of the pricing system.

Wider participation in the development process should be encouraged; measures to achieve this could include decentralized governmental administrative systems and support for relevant voluntary organizations.

Regional and sub-regional integration, or other forms of close cooperation, still offer a viable strategy for accelerated economic development and structural transformation among developing countries especially the smaller ones. It supports industrialization and trade expansion and provides opportunities for multi-country ventures.

Developing countries should take steps to expand preferential trade schemes among themselves. This could be encouraged by such measures as the untying of aid.

Developing countries should give special attention to the establishment and extension of payments and credit arrangements among themselves to facilitate trade and to ease balance-of-payments problems.

The emergence of capital-surplus developing countries provides special scope for the establishment of projects on the basis of tripartite arrangements involving developing countries alone or in partnership with industrialized countries. Such arrangements should be supported by both developed and developing countries. Tripartite projects—including, when appropriate, industrialized countries—should be encouraged by nations with complementary resources such as capital and technology.

Developing countries should consider what forms of mutual assistance organization might help them to participate more effectively in negotiations and in the work of international organizations and to promote economic cooperation among themselves.

COMMODITY TRADE AND DEVELOPMENT

The commodity sector of developing countries should contribute more to economic development through the greater participation of these countries in the processing, marketing and distribution of their commodities. Action for the stabilization of commodity prices at remunerative levels should be undertaken as a matter of urgency.

Measures to facilitate the participation of developing countries in processing and marketing should include the removal of tariff and other trade barriers against developing countries' processed products, the establishment of fair and equitable international transport rates, the abolition of restrictive business practices, and improved financial arrangements for facilitating processing and marketing.

Adequate resources should be provided to enable the Common Fund to encourage and finance effective International Commodity Agreements which would stabilize prices at remunerative levels; to finance national stocking outside ICAs; and to facilitate the carrying out of Second Window activities such as storage, processing, marketing, productivity improvement and diversification.

Greater efforts should be made to bring to a rapid and successful conclusion negotiations on individual commodity agreements wherever these are feasible.

Compensatory financing facilities should be expanded and improved to provide more adequately for shortfalls in real commodity export earnings.

The mutual interest of producing and consuming countries in the development of mineral resources requires the creation of new financial arrangements leading to more equitable and stable mineral development agreements, greater assurance of world mineral supplies and increased developing-country participation in their resource development. A new financing facility, whose primary function will be to provide concessional finance for mineral exploration, should be established on the basis of a global responsibility for investment in mineral development.

ENERGY

An orderly transition is required from high dependence on increasingly scarce non-renewable energy sources.

Immediate steps towards an international strategy on energy should be taken as part of the Emergency Programme recommended in the final chapter of the Report.

Prices which reflect long-term scarcities will play an important role in this transition; orderly and predictable price changes are important to facilitate a smooth development of the world economy.

Special arrangements including financial assistance should be made to ensure supplies to the poorer developing countries.

International and regional financial agencies must increase substantially their financing of exploration and development of energy sources including the development of renewable energy resources.

A global energy research centre should be created under UN auspices to coordinate information and projections and to support research on new energy resources.

INDUSTRIALIZATION AND WORLD TRADE

The industrialization of developing countries, as a means of their overall development efforts, will provide increasing opportunities for world trade and need not conflict with the long-term interests of developed countries. It should be facilitated as a matter of international policy.

Protectionism threatens the future of the world economy and is inimical to the long-term interests of developing and developed countries alike. Protectionism by industrialized countries against the exports of developing countries should be rolled back; this should be facilitated by improved institutional machinery and new trading rules and principles.

Adjustment to new patterns of world industrial production should be accepted as a necessary and desirable process. Industrialized countries should vigorously pursue positive and time-bound adjustment programmes developed through international consultation and subject to international surveillance.

Safeguard measures must be internationally negotiated and should be taken only on the basis of established need. They should be non-discriminatory, of limited duration and subject to international surveillance.

The Generalized System of Preferences should be eased in respect of its rules of origin, its exceptions and its limits. It should be extended beyond its present expiration and not be liable to unilateral termination.

Financial support and technical assistance should be given to the poorer countries to facilitate their establishment of improved commercial infrastructure and their participation in international trade negotiations.

Fair labour standards should be internationally agreed in order to prevent unfair competition and to facilitate trade liberalization.

An international trade organization incorporating both GATT and UNCTAD is the objective towards which the international community should work. Meanwhile, there is need for improvement in existing arrangements including wider development of trade cooperation in such matters as the establishment and administration of rules, principles and codes covering restrictive business practices and technology transfer.

TRANSNATIONAL CORPORATIONS, INVESTMENT AND THE SHARING OF TECHNOLOGY

Effective national laws and international codes of conduct are needed to govern the sharing of technology, to control restrictive business practices, and to provide a framework for the activities of transnational corporations.

The investment regime we propose would include:

1. Reciprocal obligations on the part of the host and home countries covering foreign investment, transfer of technology, and repatriation of profits, royalties and dividends.

2. Legislation, coordinated in home and host countries, to regulate transnational corporation activities in matters such as ethical behaviour, disclosure of information, restrictive business practices and labour standards.

3. Intergovernmental cooperation in regard to tax policies and the monitoring of transfer pricing.

4. Harmonization of fiscal and other incentives among host developing countries.

In addition to improved access to international development finance the bargaining capacity of developing countries, particularly of the smaller and least developed countries, vis-a-vis the transnational corporations should be strengthened with the technical assistance now increasingly available from the UN and other agencies.

Permanent sovereignty over natural resources is the right of all countries. It is necessary, however, that nationalization be accompanied by appropriate and effective compensation, under internationally comparable principles which should be embodied in national laws. Increasing use should also be made of international mechanisms for settling disputes.

Greater international, regional and national efforts are needed to support the development of technology in developing countries and the transfer of appropriate technology to them at reasonable cost.

There should be increased efforts in both rich and poor countries to develop appropriate technology in the light of changing constraints regarding energy and ecology; the flow of information about such technology should be improved. The international aid agencies should change those of their practices which restrict the recipients' freedom to choose technology, and should make more use of local capacities in preparing projects.

THE WORLD MONETARY ORDER

The reform of the international monetary system should be urgently undertaken by all interested parties building on the large measure of consensus which emerged in Committee of Twenty, and taking account of current difficulties and dangers. Reform involves improvements in the exchange rate regime, the reserve system, the balance of payments adjustment process, and the overall management of the system which should permit the participation of the whole international community.

Mechanisms should be agreed for creating and distributing an international currency to be used for clearing and settling outstanding balances between central banks. Such a currency would replace the use of national currencies as international reserves. It could take the form of an improved Special Drawing Right, and could be facilitated by an appropriately designed "substitution account".

New SDRs should be created to the extent called for by the need for non-inflationary increases in world liquidity. The distribution of such unconditional liquidity should favour the developing countries who presently bear high adjustment burdens. Such a distribution—often referred to as an SDR link—would also assist the adjustment process of the international monetary system.

There should be agreement on adjustment process which will not increase contractionist pressures in the world economy. The adjustment process of developing countries should be placed in the context of maintaining long-term economic and social development. The IMF should avoid inappropriate or excessive regulation of their economies, and should not impose highly deflationary measures as standard adjustment policy. It should also improve and greatly extend the scope of its compensatory financing facility, for example by relaxing quota limits, measuring shortfalls in real terms and making repayment terms more flexible. Surplus countries should accept greater responsibility for payments adjustments, and IMF measures to encourage this should be considered.

Increased stability of international exchange rates, particularly among key currencies, should be sought through domestic discipline and coordination of appropriate national policies.

The participation of developing countries in the staffing, management and decision-making of the IMF should be enlarged.

In furthering the demonetization of gold, the bulk of the IMF gold stock should, after the completion of the present sales arrangements, be used as collateral against which the IMF can borrow from the market for onward lending particularly to middle-income developing countries. Staggrated sales should also be undertaken and accruing profits of such sales should be used as interest subsidy on loans to low-income developing countries.

A NEW APPROACH TO DEVELOPMENT FINANCE

There must be a substantial increase in the transfer of resources to developing countries in order to finance:

1. Projects and programmes to alleviate poverty and to expand food production, especially in the least developed countries.
2. Exploration and development of energy and mineral resources.
3. Stabilization of the prices and earnings of commodity exports and expanded domestic processing of commodities.

The flow of official development finance should be enlarged by:

1. An international system of universal revenue mobilization, based on a sliding scale related to national income, in which East European and developing countries—except the poorest countries—participate.
2. The adoption of timetables to increase Official Development Assistance from industrialized countries to the level of 0.7 percent of GNP by 1985, and to one percent before the end of the century.
3. Introduction of automatic revenue transfers through international levies on some of the following: international trade, arms production or exports; international travel; the global commons, especially sea-bed minerals.

Lending through international financial should be improved through:

1. Effective utilization of the increased borrowing capacity of the World Bank resulting from the recent decision to double its capital to \$80 billion.
2. Doubling the borrowing-to-capital ratio of the World Bank from its present gearing of 1:1 to 2:1, and similar action by Regional Development Banks.
3. Abstaining from the imposition of political conditions on the operations of multilateral financial institutions.
4. Channelling an increasing share of developing finance through regional institutions.
5. A substantial increase in programme lending.

6. The use of IMF gold reserves either for further sales, whose profits would subsidize interest on development lending, or as collateral to borrow for on-lending to developing countries.

7. Giving borrowing countries a greater role in decision-making and management. Resource transfers should be made more predictable by long-term commitments to provide ODA, increasing use of automatically mobilized revenues, and the lengthening of the IDA replenishment period.

Consideration should be given to the creation of a new international financial institution—a World Development Fund—with universal membership, and in which decision-making is more evenly shared between lenders and borrowers, to supplement existing institutions and diversify lending policies and practices. The World Development Fund would seek to satisfy the unmet needs in the financing structure, in particular that of programme lending. Ultimately it could serve as a channel for such resources as may be raised on a universal and automatic basis.

There is need for major additional multilateral finance to support mineral and energy exploration and development in developing countries. Some of this will come from existing institutions, but we believe there is a case for a new facility for this purpose.

The flow of lending from commercial banks and other private financial bodies to developing countries must be strengthened. Middle-income countries need special measures to lengthen the maturity of their debt structures and poorer developing countries should be enabled to borrow more easily in the market. The World Bank and other international financial institutions should assist this process by co-financing, by the provisions of guarantees, and by using concessional funds to improve lending terms and reduce interest rates.

Measures should be adopted to facilitate the placing of bonds by developing countries in international markets. These should include the removal of restrictions and the provision of guarantees and adequate arrangements for the assessment of risks.

INTERNATIONAL ORGANIZATIONS AND NEGOTIATIONS

Policies, agreements and institutions in the field of international economic, financial and monetary cooperation should be guided by the principle of universality.

The UN system, which faces ever-expanding tasks, needs to be strengthened and made more efficient. This calls for more coordination of budgets, programmes and personnel policies, to avoid duplication of tasks and wasteful overlapping.

The performance of the various multilateral organizations in the field of international development should be regularly monitored by a high-level advisory body.

There needs to be a review of the present system of negotiations to see whether more flexible, expeditious and result-oriented procedures can be introduced without detracting from cooperation within established groups.

Increased attention should be paid to educating public opinion and the younger generation about the importance of international cooperation.

The occasional use of limited summit meetings should be considered to advance the cause of consensus and change.

APPENDIX 2

NORTH-SOUTH RELATIONS*

(By John W. Sewell and John A. Mathieson)

Two salient features marked the evolution of relations between developed and developing countries in the 1970's. First, the importance of the third world to the economic interest of the rest of the world and to the functioning of the international economic system has increased dramatically. Second, a significant division has grown between developed and developing countries on the issue of the structures, rules, and governance of the world economy, with the former countries advocating gradual changes and the latter pressing for immediate reforms. The involvement of developing countries in international transactions will continue to grow in the 1980s, as will the need for improvements in North-South relations.¹

The next few years appear to be a particularly inauspicious time for increased attention to the main problems at issue between the United States and the developing countries of the third world. The industrial economies of the North are beset by an apparently intractable set of domestic economic problems—slow growth and lagging productivity; structural unemployment; and rates of inflation that are eroding individual economic gains and leading to a pervasive sense of insecurity about the future.

The developing countries, having weathered the stresses of the last decade fairly well, also face a future of increasing uncertainty. They suffer directly from slow growth in the markets of industrial countries, and inflation affects the price of most of their purchases from abroad. Their debt has grown exponentially since 1974 to over \$300 billion, while the commitment of the North to raising or even maintaining present levels of development assistance is weakening, even though poverty in the third world remains widespread.

For the United States, the current period seems particularly difficult. The turmoil in Iran and the sudden intervention of the Soviet Union in Afghanistan has raised the specter of renewed cold war centered on U.S.-Soviet competition in the third world.

The heightened concern about security issues does not, however, diminish the importance of simultaneously addressing world development problems and formulating longer-range policies on American relations with the countries of the third world. In the 1980s U.S. interests in these countries—whether they concern economic relations and development, human rights and basic needs, or nuclear non-proliferation—can no longer be subordinated to issues of military security or relations with the USSR and with America's industrial allies in the Organization of Economic Cooperation and Development.

IMPORTANCE OF NORTH-SOUTH RELATIONS

There are several reasons why the United States should give higher priority in the future to relations with the developing world. One is the increasing interdependence between economic performance in the United States (and other industrial countries) and that achieved in the third world. In chapter 3 of this volume the authors point out that the United States has become more dependent on relationships with the rest of the world. Developing countries represent a major component of those relationships because of their markets for sources of goods and their financial flows and investment opportunities. Indeed, the world economy is not functioning particularly well for either developed or developing countries. Development was once considered a problem confined to the poor countries, and searches for new sources of growth tended to ignore the third world. Now, however, many

*John W. Sewell and John A. Mathieson, "North-South Relations," in Joseph A. Pechman, ed., *Setting National Priorities: Agenda for the 1980s*. Copyright 1980 by the Brookings Institution. Reprinted by permission.

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¹In this chapter we use the term *North* to refer to the world's rich, industrial non-Communist states that are members of the Organization for Economic Cooperation and Development. Theoretically and especially in terms of policy application, the industrial countries of the Eastern bloc should be considered members of the North, but these nations have for the most part declined to participate in North-South negotiations. The term *South* refers to the world's less developed or developing nations that are members of the Group of 77, the coalition that pursues the economic aims of the South.

realize that the economic performance of these countries can slow or stimulate world growth and that the third world can play a greater role in efforts to regenerate long-term international economic momentum.

Second, dealing with today's global economic problems will require the active involvement of the developing countries. The rising number of countries in the third world is significant: in 1959, 92 countries were independent; at the beginning of the 1980's the number has grown to 164, and all the new entrants are developing countries. This fact alone would complicate the management of any international problem but, in addition, a number of these countries are now economic actors of considerable importance.

Third, the agenda of North-South issues has broadened considerably during the last decade beyond the traditional concerns of aid and trade. As a group, the developing countries are pushing for major changes in the international economic and political systems created after World War II. Their agenda also includes new rules to govern the oceans, air waves and other commonly shared global domains; the search for an international energy strategy; ways to increase world food production; human political, social, and economic rights; and new policies and institutions to deal with world economic problems.

Finally, neither the industrialized rich nor the developing countries are addressing what still remains the most pressing humanitarian problem: the plight of the world's poorest people. The conditions in the world's more than forty poorest countries pose a crucial moral issue that will require special measures. The World Bank recently estimated that between 470 million and 710 million people will still remain in what is defined as "absolute poverty" two decades hence, depending on the pattern of growth rates. That is, even after a period of global economic growth, these people will lead a life "so limited by malnutrition, illiteracy, disease, high infant mortality, and low life expectancy as to be below any rational definition of human decency."²

These problems pose one of the important priorities of the 1980s—the need to address the issues of world development that no longer can be resolved within national boundaries and to integrate a comprehensive approach to North-South relations into American foreign policy.

U.S. SECURITY INTERESTS IN THE THIRD WORLD

The instability in Iran and the Soviet intervention in Afghanistan have raised concern about Soviet intentions and U.S. military security to levels not seen in a decade. Current discussions center on the need to increase military expenditures, develop the capability of American forces to intervene in the third world when U.S. interests are threatened, and obtain access to bases in order to enhance that capability.

American policymakers are now reassessing how important third world countries are to U.S. security and which policies can most effectively protect those interests. The United States sees itself as a global power the ultimate guarantor of world peace. Maintenance of a global strategic balance is crucial as a safeguard against nuclear holocaust. From this perspective, the developing countries are important only to the extent that they affect the strategic balance. At the same time, however, thoughtful analysts realize that there are limitations to U.S. military power and that a number of third world countries and regions are of concern to the United States for reasons only tangentially related to the strategic relationship between the United States and the Soviet Union.

Much more analysis and public discussion of the precise nature of the Soviet, Cuban, and Vietnamese "threat" to the developing countries is needed, as well as investigation of the nature of long-run U.S. security interests in the developing countries. Some observers aim at preempting and denying the influence of the USSR in areas where the vital interests of the United States are at stake, particularly in the oil-producing region in the Middle East. Others feel that the United States should maintain its power throughout the world to preserve freedom of communications, particularly on the high seas, and access to supplies and markets. In addition, there is growing apprehension about the instability of the third world and the longer-run dangers for the United States in the event of widespread deterioration in global cooperation. A Rand Corporation report stated in the late 1970s: "The diffusion of military power and the growing reluctance of the industrial democracies to use force in defense of their national interests will increase the propensity of medium and small powers, especially in the Third World, to resort to

² Robert S. McNamara, address to the Board of Governors of the World Bank, Belgrade, Yugoslavia, October 2, 1979.

violence when their interests clash with those of the United States, Japan, and Western Europe."

But the use of military power to achieve American objectives in the third world may no longer be generally applicable. A recent study identified 215 incidents in which U.S. forces were used for political purposes since the end of World War II (185 of which were in the third world) and concluded that the use of military force to achieve political objectives has primarily a short-run effect and is no substitute for long-run diplomacy.⁴ This line of reasoning suggests that U.S. interests can be much more efficiently promoted in the longer run by establishing mutually beneficial relationships with the developing countries.

In the 1980s the possibility of confrontation between the United States and the Soviet Union in the third world remains a worrisome feature of the international scene. The danger of an escalated conflict is particularly marked in the Middle East. In southern Africa, tensions will remain high until definitive progress toward majority rule is achieved. This same potential for conflict is present in other parts of the world, depending at times on the actions of both the United States and the Soviet Union; at other times the potential exists in spite of those actions. In the current environment of concern over security issues, however, the United States should not neglect the fact that U.S. interests in the third world include a broad set of economic relationships and moral interests.

ECONOMIC DEVELOPMENT IN THE SOUTH

Without question, the symptoms of absolute poverty—hunger, disease, illiteracy, and high mortality rates—are still widely prevalent in many third world nations. However, their aggregate economic growth record over the past decade has been surprisingly good despite major differences among them and a rather widespread air of gloom about their future prospects. In the 1970s industrial nations grew at an average rate of 3.4 percent a year, while the developing countries achieved a growth rate of 5.7 percent a year. Even though markets in industrial countries were becoming increasingly closed to certain imports from the third world, the developing countries were successful in raising their exports of manufactured goods at an average annual rate of over 10 percent. Although the level of official development assistance from the industrial countries is only half that called for by the United Nations (0.33 percent of the gross national product of donor countries versus the 0.70 percent objective) and the bill of oil-importing developing countries rose from \$7 billion in 1973 to about \$44 billion in 1979, the developing countries still managed to finance most of their own development, largely by saving and investing nearly a quarter of their limited national incomes.

The relatively sanguine picture drawn by these aggregate figures makes what is perhaps one of the most important trends in the third world—the growing differentiation of economic performance among developing nations. A handful of countries have achieved rapid advances in economic and social well-being, but more are struggling to maintain economic momentum, and a number of others are witnessing deterioration in already unacceptably low standards of living. This increasing differentiation is, on the one hand, evidence of success; some developing countries have done very well in the past ten years. But it also has greatly complicated North-South relations, given the need to formulate different economic policies for different countries and the desire of the third world to maintain a unified stand on international economic matters.

Any classification of third world nations is open to argument, but it is useful to define four categories: members of the Organization of Petroleum Exporting Countries (OPEC), advanced developing countries, other middle-income developing countries, and low-income developing countries. The first two groups are of direct and immediate concern to the United States economically and in some cases politically; the latter two are for the most part important to longer-term U.S. economic interests and, in the case of the low-income developing countries, to American moral and humanitarian interests.

The members of OPEC have used their rapidly rising oil revenues in a variety of ways to achieve economic and political objectives. OPEC itself includes a highly disparate group of countries, all in the third world, ranging from Indonesia at the low end of the income scale, Venezuela at about the middle, and Kuwait at the top. Some OPEC members have used their oil revenues to invest in projects designed to provide future income when their reserves are depleted, and some have distributed

⁴ Guy J. Pauker, *Military Implications of a Possible World Order Crisis in the 1980s* (Rand Corporation), 1977, p. 73.

⁵ Barry M. Blechman and Stephen S. Kaplan, *Force Without War: U.S. Armed Forces as a Political Instrument* (Brookings Institution, 1978).

the benefits of oil income as widely as possible throughout their populations. Still others have concentrated on purchases of military equipment and expensive but unneeded infrastructure projects, and have made few attempts to meet the basic needs of their poor majorities.

The advanced developing countries have also taken on major roles in the international economy, both because of their high growth rates (giving them more promising markets for products of industrial countries), and because of their rapidly expanding exports, primarily manufactured goods, to the industrial countries. Although opinions vary on which developing nations can be called advanced, lists usually include the smaller economies of Hong Kong, Singapore, Taiwan, and South Korea, as well as large and resource-rich economies such as Brazil and Mexico. The growth performance of these advanced countries has been spectacular; from 1960 to 1977 the average annual gross national product and per capita growth rate in all cases were higher than those of the United States, even though their populations were increasing twice as fast. More striking is the ability of the advanced developing countries to expand their exports. Between 1967 and 1977 their average annual growth in exports was 24 percent, compared with 14 percent for the United States and about 15 percent for the industrial countries as a whole.

These advanced developing countries by and large have changed from import-substitution to export-promotion policies. Like Japan in the 1960s and early 1970s, they have pursued an outward-looking growth strategy that concentrates on exporting low-cost consumer goods such as apparel, footwear, and consumer electronics to industrial nations. As a result, many American businesses and unions have complained about the cheap goods flooding U.S. domestic markets, dislocating industries and jobs. Opponents of trade with the advanced developing countries seldom mention the consumer gains, anti-inflationary benefits, and efficiency incentives derived from these imports, or the fact that the markets of these countries are among the most rapidly growing ones for U.S. exports of agricultural products, machinery, transportation equipment, and high-technology goods and services.

The other middle-income developing countries—those with per capita income above \$300—consist of a host of nations at widely divergent levels of economic development. A few have successfully expanded their exports of manufactures, but most depend on income from exports of minerals and agricultural commodities. Because of the intense competitiveness of the advanced developing countries and reactions to that competitiveness in the markets of industrial countries, the prospects of newcomers pursuing export-led growth strategies successfully are more limited now than they have been in the past. Most middle-income countries have been buffeted by rising import costs and dramatic fluctuations in demand and prices for their commodity exports. The resulting inflation, balance-of-payments deficits, and debt accumulation have made it difficult for many of these countries to implement expansionary economic policies.

The circumstances of the 1.3 billion people living in the poorest nations of South Asia and Sub-Saharan Africa present the bleakest economic prospects for the third world. These countries have witnessed relatively little change in their economic conditions over the past decade. They constitute about 61 percent of the total population of the developing world, but they account for only 16 percent of the total gross domestic product and less than 10 percent of the total exports of the third world. They are in many ways becoming the forgotten majority of development efforts throughout the world. While the middle-income developing countries increased their per capita income by about \$400 during the 1970s, the poorest countries recorded an increase of only \$40, or about \$4 a year. The average per capita income of middle-income countries stood at \$1,225 in 1978, compared with only \$185 for the poorest nations. The absolute poverty in this latter group of countries is widespread, and there are countless obstacles impeding their attempts to overcome deprivation.

U.S. ECONOMIC INTERESTS IN THE THIRD WORLD

The activities of third world countries will be of increasing importance to the well-being of the United States and other developed countries in the decade to come. Developing countries not only supply a growing percentage of raw materials and low-cost, anti-inflationary consumer goods, but they are now major markets for the industries and farms of the United States and the other industrial countries. During the 1974-75 world recession, developing countries maintained relatively high growth rates by borrowing from abroad, and their purchases contributed significantly to aggregate demand in industrial countries. One analyst recently commented: "This source of demand represented a significant contribution by less developed countries to the alleviation of unemployment in developed countries. . . . the development of

the world's poorer countries matters to the health of the economies of the industrial countries.

The importance of the developing countries to the North as export markets as well as sources of oil, raw materials, and consumer goods will continue to grow in the future. Indeed, the third world represents the new growth frontier for the world economy. The essential elements of this potential include low capital-labor ratios, low cost and abundance of labor, possible increases in the sophistication and education of the labor force, opportunities for applying technologies used in more affluent countries, a rich natural resource base, and nearly unlimited—but not yet effective—demand for products, investments, and technologies to satisfy the development and welfare needs of the third world countries.

These factors have been present for some time but have been far from fully utilized. Establishing sound economic and social bases for development takes time, as it did for the industrial transformation in the United States and Europe. A number of developing countries have shortened this period considerably, assisted by the capital and advanced technology of the industrial countries of the North. Efforts to augment and utilize the potential of the third world could, if properly implemented, enhance the international economy's efficiency and equity. Although political and economic constraints must be faced at both the domestic and international levels, such efforts are already well under way in several areas of U.S. economic relations with developing countries.

TRADE

As mentioned above, the U.S. stake in trade with third world nations is large and growing. That trade improves the quantity and quality of U.S. economic output, largely because the developing countries offer both rapidly expanding markets for U.S. goods and services and new sources of competition to spur efficiency measures and overcome the "lost dynamism" that some argue is the core of the economic malaise of industrial countries.⁴

While the composition and volume of U.S. trade with individual developing countries varies enormously, trade between the United States and the third world as a whole follows a predictable pattern: the United States exports agricultural products, machinery, transportation equipment, and other relatively sophisticated manufactures to the developing countries, and they in turn sell oil, other primary goods, and labor-intensive consumer goods to the United States. In other words, trade has evolved as one would expect—according to the relative abundance of arable land, capital, and technology in the United States and of natural resources and labor in the developing countries. Both in theory and practice, these major differences in comparative advantage (differentials in factor endowments and costs) raise the potential for significant gains from trade because trade results in the more efficient production of output.

In 1978 developing market economies purchased 38 percent of total U.S. merchandise exports: 26 percent went to non-OPEC developing countries and 12 percent to members of OPEC. The United States now sells more to the non-OPEC developing countries than to the European Community, Eastern Europe, the Soviet Union, and China combined.

Despite the large volume of American exports to developing countries, the United States is experiencing a significant trade deficit vis-a-vis the third world, amounting to about \$20 billion in 1978. But the aggregate figure is somewhat deceptive. Of the total \$74 billion in U.S. imports from developing countries in 1978, almost half, or \$36 billion, was accounted for by oil and petroleum products.

About 40 percent of total U.S. exports of manufactures are sold to developing countries. Estimates that one out of eight jobs in manufacturing are attributed to exports suggest that about one out of every twenty U.S. jobs in manufacturing exists to meet the demand for U.S. exports to the third world.

Although trade in goods does represent the strongest economic link between developing countries and the United States, overemphasis of the merchandise portion of the balance of payments can be misleading. For example, U.S. income from services exports (investment income, fees and royalties, shipping and insurance income, and interest income) improves the U.S. current account balance. The United States ran a total services surplus of more than \$25 billion in 1978, of which over \$17 billion was accounted for by net services trade with developing countries.

⁴William R. Cline, ed., *Policy Alternatives for a New International Economic Order: An Economic Analysis* (Praeger for the Overseas Development Council, 1979), p. 46.

⁵John P. Lewis, *Development Cooperation: Efforts and Policies of the Members of the Development Assistance Committee* (Paris: Organization for Economic Cooperation and Development, 1979), p. 31.

(including oil-exporting countries). This surplus directly offsets a portion of the trade deficit in the current account balance.

U.S. imports manufactures from non-OPEC developing countries are increasing rapidly; they rose at an average growth rate of 22 percent a year during the 1965-77 period, compared to an average 16 percent growth rate for U.S. imports of manufactures from industrial countries. The share of manufactures imports from developing countries as a proportion of total U.S. imports of manufactured goods has risen from 15 percent in 1965 to 24 percent in 1977. Although not large relative to the entire economy, this trade is concentrated in "sensitive" commodity categories (textiles, apparel, footwear, consumer electronics), that is, those requiring labor-intensive production and competing with relatively stagnant sectors in the U.S. economy. This type of trade leads directly to the classical case of increased efficiency in the economy as a whole and welfare gains to consumers, but losses of employment opportunities in declining industries.

A recent analysis based on a survey of actual U.S. retail sales found that imports from developing countries were as much as 16.3 percent cheaper than their domestically produced counterparts of comparable quality. Imports from developed areas were only slightly less expensive (0.4 percent) than comparable U.S. goods. Overall, American consumers save more than \$2 billion a year as a direct result of purchasing less-expensive imports. This is particularly important for low-income consumers, who save as much as 13 percent by purchasing imported rather than domestic goods.⁷

Public debates in the United States about American policies on imports from the third world highlight sharp differences on this issue between consumers and workers. The gains to the welfare of U.S. consumers from these imports are significant, but they are dispersed widely throughout the economy, whereas displacement of employment opportunities is concentrated in a relatively few U.S. industries. The macroeconomic employment effects of these imports are negligible—especially when compared to other job displacement factors such as automation and shifts in demand and when the job creation effects in U.S. export industries are taken into consideration. However, the fact that job losses are highly visible and subject to national policy has led affected businesses and unions to focus attention on them.

In response to these conflicting interests, the U.S. government has adopted a policy of keeping markets relatively open to imports of manufactures from developing countries, but at the same time placing controls on certain imports growing at above-normal rates in affected sectors. Many of these sensitive products have been excluded from the U.S. generalized system of preferences extended to developing countries, and import quotas or their equivalent have been established or tightened on these products. In addition, the United States has taken the lead among industrial countries in urging the advanced developing countries such as Brazil, Mexico, Korea, and Taiwan to open their markets to imports from developed and other developing countries and accept a reduction in preferential treatment.

FOOD AND COMMODITIES

The United States has a direct interest in world trade of food and commodities because it seeks access to supplies of needed materials at reasonable prices and expansion of sales of the commodities it produces, again at remunerative prices. Added to this are broader interests—the assurance that world demand will be largely met (for humanitarian reasons and to avoid the disruptive effects of shortages), the dampening of major fluctuations in commodity prices, and the promotion of investment in raw materials industries.

Notions that third world countries would organize militant cartels on the model of OPEC for other critical raw materials have faded. However, the boom or bust syndrome of excess supply and excess demand continues to plague both producers and consumers. There is an emerging perception in both the North and the South of the need to stabilize commodity markets, but progress in this area has been slow. The lack of progress is somewhat ironic in view of evidence suggesting that the largest measurable economic benefits from commodity price stabilization would be gains for the industrial countries, including the United States, because of reduced inflationary pressures.⁸

The U.S. interest in commodity production and trade is complicated by the fact that the United States is both a large producer and a large consumer of raw

⁷ William R. Cline, *Imports and Consumers Prices: A Survey Analysis* (Washington, D.C.: American Retail Federation and National Retail Merchants Association, 1979), pp. 3-19.

⁸ See Jere R. Behrman, "International Commodity Agreements: An Evaluation of the UNCTAD Integrated Commodity Programme," in Cline, ed., *Policy Alternatives for a New International Economic Order*, pp. 63-148.

materials. Not as dependent on imports of commodities as are the European Community or Japan, the United States nevertheless does import significant amounts of commodities from developing countries. In 1976, for example, U.S. net imports from developing market economies accounted for 88 percent of domestic consumption of columbium, 82 percent of tin, 56 percent of aluminum, and 50 percent of manganese. Literally all U.S. imports of commodities such as rubber, coffee, tea, cocoa, hard fibers, and jute are accounted for by imports from the third world. On the other hand, the United States produces large quantities of minerals such as coal, iron, lead, copper, and phosphates, although most of these are consumed domestically rather than exported. And perhaps most significantly, the United States is the world's largest producer of food exports, supplying about 45 percent of total exports of wheat and 64 percent of coarse grains in the 1978-79 period.

U.S. policies are ambiguous with regard to commodity issues. Historically, the United States has participated in commodity agreements on such items as sugar and coffee. When the UN Conference on Trade and Development first advanced its proposal for an Integrated Programme for Commodities in 1974, however, the United States opposed the initiative, citing fears of new cartels and on the grounds of the long-standing U.S. objection to market interventions in general. This position has been modified in recent years. The United States has negotiated individual agreements and is now a member of agreements governing tin, coffee, and sugar (the last, ratified by the Senate, is still pending the enactment of implementing legislation). Late in 1979 the United States signed an agreement on rubber. Originally a strong opponent of a proposed Common Fund to finance commodity agreements, the United States eventually agreed to its creation, but has succeeded in limiting the amount of direct contributions to the fund. On a separate but related matter, the United States participated in the negotiation of an international wheat agreement, but it collapsed over the questions of stockpile release prices and maintenance costs. In sum, the United States has taken a selective approach toward commodity issues in recognition of the diverse requirements for different commodities and has attempted to bargain strongly to satisfy the current needs of U.S. producers and consumers.

ENERGY

Energy is the most critical issue affecting economic relations between the United States and the third world. Energy is still an issue of confrontation, but it could and in fact must become an area of North-South cooperation if a solution is to be found: energy is a global problem that requires a global approach. In the near term, a global strategy should include three elements. First, strong conservation measures are needed to reduce the consumption of oil, particularly in the United States, because per capita energy consumption in the United States is far above that in other countries: more than one and a half times the average for industrial countries, twelve times as much as in middle-income developing countries, and about seventy times the average consumption in low-income developing countries. Second, agreement is essential between producing and consuming countries to provide sufficient supplies of energy at predictable and reasonable prices, which is not necessarily the same as low or unchanging prices. And third, assistance is needed for non-OPEC developing countries whose oil-related deficits and debts are rapidly reaching crisis proportions.

The longer-run strategy for energy should be implemented simultaneously. Such a strategy should include the expansion of production of traditional sources of energy from nontraditional suppliers, many of which are in the third world, and a much greater emphasis on investment in and research and development of alternative sources of energy, both in developed and developing countries. All these actions require a new kind of North-South cooperation that has been totally lacking to date. A global energy strategy will be complete only if the United States and other industrial countries jointly work with developing countries to produce, save, and replace oil, and strive to negotiate some new understandings between oil exporters and importers. (Energy policy is discussed in more detail in chapter 4 of this volume.)

INVESTMENT AND LENDING

At the end of 1978 U.S. direct investment in developing countries amounted to more than \$40 billion, almost a quarter of total U.S. direct investment in other nations. Investments in the third world by U.S. firms are generally large and highly visible; they are an integral part of the trading network, providing the United States with significant amounts of raw materials and increased access to third world markets. In addition, they generate significant revenues for U.S. firms; for example, in 1978, 35 percent of total U.S. direct investment income originated in developing

countries. From the perspective of the third world, investment inflows supply income, employment opportunities, and access to technology.

American investment in developing countries and its costs and benefits both to the United States and to those countries has been the subject of intense debate over the past decade. Those who contend that foreign investment promotes American interests hold that investments encourage exports and imports and also provide returns to investors, thus giving the United States a "piece of the action" that would otherwise go to the firms of other countries if capital outflows were restricted. As these advocates see it, foreign investment benefits the United States by encouraging efficiency, raising the quantity and quality of employment and production. Opponents of this view argue that foreign investment undermines American interests by exporting capital and technology, thereby "displacing" domestic investment, employment, and growth. Opposition to direct investment in developing countries concentrates on such issues as the exploitation of local labor and natural resources, the despoiling of the environment, and the lack of sufficient contribution to domestic development efforts.

While the pros and cons of direct investment will continue to receive attention, the widespread antagonism to U.S. foreign investment prevalent in the early 1970s has subsided. Both U.S. firms and the governments of developing countries have learned from their experiences, and bargaining for investment terms in many cases takes place on a more equal footing. This process must continue if developing countries are to receive the capital inflows they need, on terms they can accept, and if the firms are to establish a long-term presence with adequate returns.

In addition to direct investments, U.S. private bank lending to developing countries has rapidly increased in recent years. U.S. bank claims on developing countries (excluding offshore banking centers) amounted to \$74 billion at mid-year in 1979, or some 35 percent of total U.S. bank claims on foreign borrowers. Interest from these loans constitutes large and growing shares of total bank revenue. Thus the ability of developing countries to repay their debts, primarily through receipts from exports, is of major concern to lenders. The U.S. seizure of Iranian financial assets, and indications that Iran may not honor some of its debt repayment obligations, have created a cloud of uncertainty for the financial sector. Lenders now are concerned about the security of their assets, and borrowers worry about their access to funds.

As in the goods market, the developing countries have also become an integral part of the international financial scene. The ability of third world nations to repay their debt-servicing obligations—individually and collectively—has a direct bearing on bank profitability (in some cases solvency) and on financial stability. This relationship indicates the need for developing countries to expand their earning potential, primarily through exportation. Also, these countries need forms of credit that permit productive investment rather than merely the financing of current obligations.

NORTH-SOUTH BARGAINING: THE DIALOGUE

Problems in relations between developed and developing countries have been the subject of a long series of sometimes constructive, but more often acrimonious discussions and negotiations between the two groups of nations. Since the 1975 Seventh Special Session of the UN General Assembly, which succeeded in initiating a productive phase of these discussions after a particularly confrontational period, the talks have been known collectively as the North-South dialogue. In recent years this dialogue has focused on various aspects of the third world's demands for a New International Economic Order, most forcefully articulated in a declaration and action program that the developing countries pushed through the UN General Assembly at the height of OPEC's 1974 success in unilaterally raising oil prices.

The fundamental rationale for the New International Economic Order—which is a political movement as much as a set of economic objectives—lies in the third world's dissatisfaction with the international distribution of power, wealth, and income among developed and developing countries. These gaps were initially attributed to colonialism, but when political independence did not yield rapid gains in living standards, third world intellectuals and leaders began to scrutinize the international economic system itself for inequities and for what they considered economic colonialism.

The South's demands call for many changes in the rules governing international economic transactions and cover a wide variety of functional areas: commodity price-stabilization mechanisms based on buffer stockpiling and other arrangements; improvement of the generalized system of preferences, in which exports of developing countries are granted duty-free or reduced-duty entry into the markets of industrial countries; increased access to those markets for third world exports; international monetary reform; and cancellation or rescheduling of debt on a case-by-case basis. Other changes are: codes of conduct for the transfer of technology and

for the activities of transnational corporations, increased industrial capacity in developing countries, and the implementation of special measures to help the least-developed third world countries and those developing countries most seriously affected by rises in the prices of essential imports. These demands were designed to be sufficiently comprehensive to invite endorsement by all developing countries because individual proposals would obviously benefit some more than others. The diversity of the third world coalition—market and socialist economies, agricultural and newly industrializing economies, oil-exporting and oil-importing countries—guarantees the absence of a strong consensus on any particular item. Therefore, efforts of the South to maintain political unity have required that they demand implementation of the entire set of changes. This tactic, considered necessary by leaders of the South, has been totally rejected by the North, and therefore has become a major source for stalemate in the negotiations.

EMERGENCE OF SOUTHERN UNITY

Although it gained widespread attention only when OPEC exercised control over oil supplies in the mid-1970s, the push for a new economic order has a much longer history. The origins can be traced at least as far back as the mid-1950s. Fearing domination by the superpowers and the possibility that the developing countries might be used as the staging ground for major power conflicts, the newly independent nations sought to avoid direct political and military alliances with either the United States or the Soviet Union. These concerns led to the creation of the Non-Aligned Movement, which grew out of the 1955 Bandung Conference attended by officials from twenty-nine African and Asian developing countries. Initially the Non-Aligned Movement, whose membership has increased to ninety-five, focused its efforts on the political issues of decolonization, independence, and neutrality rather than on economic concerns. While it has gradually broadened its mandate to include economic issues, its focus remains primarily political. The Non-Aligned Movement created a basis and a model for unity among the developing countries; it was the predecessor of the "Group of 77," the coalition that pursues the economic aims of the South.

The Group of 77 originated in the North-South economic debate at the first UN Conference on Trade and Development in 1964. Consisting originally of seventy-seven developing countries (at the end of that conference), the group now has about one hundred twenty members. This body is for all intents and purposes the "South" as identified in North-South discussions. From the outset, the *raison d'être* of the Group of 77 has been to press the industrial countries to modify international economic regimes in ways that would contribute to more rapid rates of economic growth in the countries of the third world.⁹

The decade following this first conference can be considered a period of institutional and substantive growth for the unity of the South. The Secretariat of the UN Conference on Trade and Development became a focal point for the development and enunciation of the view of international economic relations held by the South. The basic point of this view is that the world's economic practices systematically discriminate against developing countries. The major example cited to support this belief has been the dependence of third world countries on primary commodity exports whose terms of trade vis-a-vis manufactured goods (and petroleum products) have been seen by some as deteriorating over time. Although the validity of the declining terms-of-trade argument was doubtful in earlier years, it can no longer be questioned. The managing director of the International Monetary Fund recently stated: "The large rise in the current account deficit of the non-oil LDCs from 1977 to 1979 can be wholly attributed to two factors: deterioration of the terms of trade and larger interest charges."¹⁰ In addition, fluctuations in the international prices of commodities have brought economic instability to exporting countries. These factors led the third world to call for stabilizing the prices and improving the terms of trade of raw material exports.

Because of the inability of the third world countries to raise their commodity export earnings (with the exceptions of OPEC and a few other developing nations), the commodity issue has remained the central feature of the new International Economic Order movement. Additional economic concerns, however—some related directly or indirectly to commodity problems—have extended the movement to other areas of economic interchange.

By processing commodities locally into intermediate or final products, developing countries hoped to obtain greater amounts of value added. But they were confronted

⁹ Roger D. Hansen, *Beyond the North-South Stalemate* (McGraw-Hill, 1979), p. 5.

¹⁰ J. de Larosière, Statement delivered to the Board of Governors of the International Monetary Fund, Belgrade, Yugoslavia, Oct. 2, 1979.

with effective tariff structures and other obstacles (such as freight-rate schedules) that discriminated against imports of processed goods relative to raw materials. The developing countries recognized the need to diversify into exports of manufactured products in which they had a comparative advantage—primarily consumer goods requiring labor-intensive production. While the strategy proved immensely successful for certain advanced developing countries, their success eventually led to more restrictive nontariff barriers, thus limiting growth potential for them and for latecomers.

Continued and rising current-account deficits in developing countries resulted in their accumulation of large private and public debt. Regardless of the actual causes for the debt buildup (higher priced imports of basic goods such as food and petroleum products, economic mismanagement, overambitious development plans, and so forth), many developing countries believed that they were victims of a debt trap not of their own making. As a result they demanded debt relief in some form, although key middle-income countries, aware of their need for a high credit rating, have been conspicuously absent from the ranks of those demanding debt relief.

The combination of these economic dilemmas, both domestic and international, and dependence on the markets, foreign investment, and technology of the industrial countries led many in the third world to the conclusion that their economic fate was not in their own hands. The fundamental changes in international economic relations that these nations consider essential to increase their bargaining power include a code of conduct to govern the activities of multinational corporations, a greater decisionmaking role in institutions and policies affecting their economic interests, and access to technology on more favorable terms. They also call for general or selective reduction of dependencies on the North, which implies much greater levels of cooperation among developing countries, or collective self-reliance. Thus the movement for a new international economic order gradually evolved into a set of demands for reform in nearly all areas involving international transactions.

Early achievements in implementing modifications in the international economy were modest but not insignificant. The UN Conference on Trade and Development was to become the primary institutional vehicle for the expression of Group of 77 demands for economic reform; it provided, in a series of conferences, an ongoing forum in which the third world could discuss economic issues. The first of these conferences, held at Geneva (1964), and the second at New Delhi (1968) focused on elaborating the developing countries' comprehensive view of economic relations between the North and the South. The third world pressed for changes in two areas of trade policy—preferential treatment for exports of developing countries in markets of industrial countries and legal acceptance of the principle of nonreciprocity in the trading system. Little substantive progress was achieved at a third conference held in Santiago (1972), partly because of the public attention devoted to the host country (Chile under Salvador Allende), but also because the prevailing international economic and financial disequilibria dominated the concerns of participants from the North.

SETTING THE STAGE FOR THE DIALOG

The year 1973 marked the watershed for North-South relations and the transition of the new international order debate from a latent to an active phase. In September the South voiced its political and economic concerns at the Algiers summit conference of the non-aligned countries, when this group and most of the Group of 77 coalesced in support of the economic agenda established by the UN Conference on Trade and Development.¹¹

This convergence of goals, strategies, and work programs between the Non-Aligned Countries and the G-77 was in and of itself bound to increase the organizational and institutional capacity of the South to press its demands for economic (and associated institutional and political) reforms in the plethora of international and regional organizations and specialized agencies to which most developing countries belong and in which they have a major voice. The greater the unity, the stronger the voice.

This consolidation of third world unity, the culmination of a decade or more of expressions of dissatisfaction with economic progress in the developing countries and of frustration with responses of the North to proposals for change ushered in what has been termed a strategy of "trade unionism."¹² Thus, rather than negotiating desired changes bilaterally, the developing countries should adopt a common

¹¹ Hansen, *Beyond the North-South Stalemate*, p. 21.

¹² For an early elaboration of this concept, see Mahbub ul Haq, *The Third World and the International Economic Order*, Development Paper 22 (Overseas Development Council, 1976), based on five lectures given in November 1975 as the second series of Turkeyen Third World Lectures delivered in Georgetown, Guyana.

platform for collective bargaining with the North. The Algiers conference put forth an economic declaration and an action program for economic cooperation; it called for the establishment of a new international economic order.

The bargaining power of this "union" was apparent a month later when the Arab oil boycott occurred and OPEC subsequently succeeded in unilaterally raising oil prices fourfold. Conditions were ripe for a shock to the North. There was a boom in demand for commodities to support record levels of growth in all nations. The Club of Rome's report, *The Limits to Growth*, had predicted major resource scarcities. The United States was withdrawing its armed forces from Vietnam after a frustrating military engagement that had created international doubts and internal divisiveness about what the United States could and should accomplish overseas.

With the stage thus set for international conferences to consider economic reform, Algeria (then chairing the Non-Aligned Movement) requested and the UN General Assembly summarily arranged a Sixth Special Session in April 1974 to address the problems of raw materials and development. Despite the objections of several industrial countries, the General Assembly adopted, without a formal vote, a Declaration and Action Programme on the Establishment of a New International Economic Order. In December of that year the General Assembly passed a second resolution, the Charter of Economic Rights and Duties of States (against the votes of six developed countries and ten abstentions), under which the third world sought to establish the right of commodity producers to cooperate in achieving more favorable terms of trade and the duty of consuming countries to refrain from retaliation.¹¹

Two months later, in February 1975, participants of the Third World Conference in Dakar proposed adding energy negotiations to general North-South economic issues in order to elicit the support of oil-producing countries for the objectives of the New International Economic Order. This strategy was endorsed by OPEC in March. At about the same time, the UN Industrial Development Organization Conference in Lima adopted an objective: to increase the developing countries' share of world industrial output from 7 percent in 1975 to 25 percent in the year 2000.

In May, after having failed repeatedly to engage the OPEC members in discussions on the energy issue, the United States indicated a willingness to discuss other commodities on a case-by-case basis. The more accommodative stance was elaborated at the Seventh Special Session of the UN General Assembly in September, during which U.S. Secretary of State Kissinger proposed a number of specific measures to promote North-South cooperation.

The apparent willingness of the United States to broaden the North-South agenda triggered action both within and outside the United Nations. In late 1975 the Conference on International Economic Cooperation first met in Paris; twenty-six countries and the European Community participated in a formal North-South dialogue. In May of the following year the fourth UN Conference on Trade and Development was held in Nairobi, at which time the third world again emphasized commodity issues. The Conference on International Economic Cooperation ended after eighteen months of mutually frustrating negotiations: the United States and other industrial countries were interested primarily in discussing energy, whereas representatives from OPEC and other third world countries refused to focus on those issues unless the industrial countries gave greater consideration to their commodity, debt, and other problems. However, participants at the final session did agree in principle on the creation of the Common Fund to finance agreements to stabilize commodity prices and on substantial increases in official development assistance. Conflicts over the financing, uses, and management of the Common Fund have yet to be fully resolved. At a ministerial meeting of the UN Conference of Trade and Development in Geneva in March 1978, agreement was reached in principle on measures for granting debt relief for the poorest countries in the third world, but donor countries retained the right to implement their own programs.

The accommodative phase of the dialogue in the mid-1970s was again transformed into confrontation by early 1979 because of the emergence of real differences between the positions of the North and the South. Negotiations to establish an international wheat agreement collapsed over a dispute about acquisition and release prices. With the exception of Argentina, the developing countries boycotted the April 1979 initialing of the agreement reached in the Tokyo Round of multilateral trade negotiations. The fifth UN Conference on Trade and Development, held in Manila, consisted largely of a rhetorical exercise castigating the protectionism of the North and its general intransigence on other issues concerning the New International Economic Order. Finally, the nonaligned countries held a well-publicized

¹¹ Rachel McCulloch, "North-South Economic and Political Relations: 'How Much Change?'" Discussion Paper 645. Harvard Institute of Economic Research (Cambridge, Massachusetts: August 1978), p. 13.

summit conference in Havana in August 1979. Economic issues were relegated to the background against the more dramatic political confrontations of delegation seating and rivalry between moderate and radical states, and the meeting had the effect of polarizing the North and the South. This dimmed the prospects for generating a more cooperative approach to discussions planned for 1980, particularly those associated with the formulation of a new international development strategy for the Third Development Decade of the United Nations and its acceptance at the Special Session of the UN General Assembly on development cooperation, scheduled to take place in August 1980.

PERSPECTIVES FOR THE FUTURE

Assessments of the chances for progress of the North-South dialogue range from outright skepticism to cautious optimism. Critics note the rigidity on both sides regarding many of the policy issues and feel that little can be accomplished in global negotiating forums. Optimists, on the other hand, point to positive steps already taken in certain areas, such as trade reform, agreements on commodity arrangements, and commitments to some form of debt relief. It will take time to put these new forms of cooperation into operation, and some will prove more successful than others, but experimentation is preferable to no action at all.

A few efforts have been made to reopen the dialogue. First, under some pressure from oil-importing developing countries, members of OPEC have agreed to reconsider the energy issue on the agenda of a new global round of North-South discussions, which is scheduled to begin early in 1981 under the auspices of the United Nations. Second, two separate, independent commissions have recently supplied sets of policy recommendations to improve North-South relations: the U.S. Presidential Commission on World Hunger and the Independent Commission on International Development Issues, better known as the Brandt Commission, chaired by former German Chancellor Willy Brandt.

In a preliminary report issued in December 1979, the Presidential Commission on World Hunger recommended that the United States "make the elimination of hunger the primary focus of its relationships with the developing countries, beginning with the decade of the 1980s."²² The report also noted that poverty is the fundamental cause of hunger in the world today and that efforts to eliminate hunger must focus on the eradication of poverty in general. The recommendations are commendable and deserve close scrutiny by Congress and the administration, as well as a positive response by developing countries.

The mandate of the Brandt Commission is much broader; its proposal constitute a more comprehensive response to North-South economic problems. Prepared by leaders from both the North and South serving in their capacities as private citizens, the Brandt Commission report sets forth near-term proposals to be implemented on an emergency basis, focusing on global food needs, greater levels of economic assistance to developing countries, an international energy strategy, and the initiation of international institution reform. The major long-term recommendations include measures to transform the needs of developing countries into effective demand for products from developed countries, measures to bring greater stability to the prices of raw materials, and a reduction in trade barriers. Also included are institutional reforms to develop new types of lending to developing countries, bring Communist countries into international economic institutions, and alter some of the operations and policies of the World Bank and International Monetary Fund.

RECENT U.S. POLICY

Assessments of the effective of U.S. policy toward the third world vary, reflecting differing perceptions of the nature of the problems and the objectives. Some argue that relations between the United States and the developing countries have undergone considerable improvement in recent years. Presidential adviser Zbigniew Brzezinski summarized this view: "I think it is fair to say that the hostility toward the United States, which was felt so strongly at the U.N. only two years ago, has dramatically declined. Most Third World countries perceive the United States today as more sympathetic and positive in its attitude."²³ More recently, Assistant Treasury Secretary C. Fred Bergsten noted: "Economic and political relations between the industrialized North and the developing South have improved dramatically since the early 1970s."²⁴ This theme has been reiterated by U.S. commentators who

²² U.S. Presidential Commission on World Hunger, *Preliminary Report* (U.S. Government Printing Office, December 1979), p. III.6.

²³ Address to the Foreign Policy Association, December 20, 1978.

²⁴ "North/South Relations: A Candid Appraisal," Remarks before the Center for Inter-American Relations, New York, N.Y., January 29, 1980.

write that the United States has been responsive to the needs of the developing countries and that its only reward has been a series of attacks in international forums. However, the perception of those whose agenda focuses on the need for international economic reforms is that little progress has been made in improving North-South relations and that the United States is one of the most obstructionist nations among the industrial countries. Willy Brandt recently wrote, "I do not believe that the American people could be indifferent to poverty and starvation anywhere in the world, and U.S. organizations have indeed shown that they are concerned and ready to help. Yet the United States, which in the early 1960s was a leader in this field, has substantially reduced its international development efforts. . . . I understand many of the reasons for the dwindling U.S. commitment but I sincerely hope that they do not reflect unchangeable aspects of American political life."¹⁷

The first assessment—that relations between the United States and developing countries have improved—is based on the following assumptions: that the international economic system is best governed by countries in accordance with their economic power and the level of their economic transactions; that the international system currently is basically sound and does not discriminate against the South, but does require gradual adaptation to deal with new problems; and that the problems of developing countries can be attributed to domestic rather than international factors, so reforms on the international level will have only a slight (and perhaps negative) impact on efforts to overcome poverty. The policy objectives that flow from this assessment are to pursue U.S. economic interests, while making the changes necessary to avoid confrontation with developing countries, and to make some effort on humanitarian grounds to assist third world nations to develop domestically. In the context of these perceptions and objectives, U.S. policies have been formulated and carried out relatively well.

This diagnosis and policy prescription, however, is fundamentally inconsistent with that put forward by many analysts and leaders—not only those in developing countries. They offer an alternative set of assumptions: because international disequilibria affect the economies of developing countries as much as (and in some cases more than) the economies of developed countries, the former countries deserve a greater decisionmaking role in policies that affect them; the international system does discriminate against them, even if inadvertently; inequities in international wealth and transactions do act as constraints on efforts to overcome third world poverty, even if poverty is primarily an internal matter; and the industrial nations are in a position to offer much more assistance to developing countries than they have to date. The policy recommendations emerging from this analysis consist of basic institutional and procedural reforms aimed at the transfer of some economic wealth, income, and power from developed to developing countries.

Like most public policy issues, the opposing sides in the debate about North-South relations tend to present their cases in black and white terms. In reality, there is some validity to both arguments. Third world nations have a legitimate claim in calling for measures to bring about a more equitable distribution of global wealth and income, but changes on the international level must be accompanied by domestic reforms. The United States should not be singled out as causing the world's economic problems—other Western industrial nations, countries in the Eastern bloc, and the developing countries share the responsibility—but the leadership position of the United States requires that it play the major role in marshaling international efforts to address these economic ills. In this context the U.S. policy record is good in some areas and bad in others.

The current U.S. administration recognized at an early stage the increasing role of the developing countries and the new problems facing the United States in its relations with them. In an address just before his inauguration, in January 1977, President Carter spoke of "the basic right of every human being to be free of poverty and hunger and disease and political repression." In a speech made to the Venezuelan Congress during his visit to that country in March 1978, the president said, "The industrial nations . . . cannot by themselves bring about world economic recovery. . . . Strong growth and expansion in the developing countries are essential. . . . For the rest of this century the greatest potential for growth is in the developing countries." In his 1980 State of the Union Address, President Carter mentioned that one of the three basic developments challenging world peace is "the press of social and religious, and economic and political change in the many nations of the developing world."

¹⁷ *North-South: A Program for Survival*, Report of the Independent Commission on International Development Issues, Willy Brandt, chairman (MIT Press, 1980), p. 27.

Although official pronouncements have been favorable to the concerns of the developing countries, the United States ultimately must be judged by its policies and actions rather than by its rhetoric. In the area of trade the record is mixed. As noted above, progress toward implementing mutually beneficial commodity agreements has been slow. The administration has resisted pressures to erect new barriers to trade, however, and the exports of developing countries to the United States continue to grow at a steady rate.

The Tokyo Round of trade negotiations, for the most part concluded in 1979, provided some benefits to developing countries, but the absence of third world signatures on the agreements signifies their lack of enthusiasm for the results. The major agreements on both tariff and nontariff items were negotiated among the leading developed countries, with only minor attention being paid to the needs of developing countries. Although this was the first serious effort in the history of trade negotiations to involve the developing countries, the negotiations did not address some of the issues of crucial importance to the third world, such as the elimination of existing quantitative restrictions on certain categories of their exports.

The U.S. record on development assistance is poor, despite the Carter administration's initial commitment to provide more aid. Congressional support for economic aid has dwindled and public opinion is ambivalent; the American people are in favor of efforts to assist the poor throughout the world, but question the efficacy and distributional results of existing programs. The United States has allocated few additional funds to its bilateral assistance program, much of which goes to the Middle East. The seemingly large increase in the U.S. multilateral assistance program—from a little more than \$1 billion in fiscal 1977 to about \$2.5 billion in fiscal 1979—includes partial payment of pledges on which the United States was in arrears and, at congressional insistence, funds in the form of callable capital (committed but not transferred to lending institutions) rather than actual contributions. The most recent report of the Organization for Economic Cooperation and Development shows U.S. official development assistance in 1978 at 0.23 percent of gross national product, far less than the 0.70 percent objective. This places the United States thirteenth among the seventeen donor countries of the Organization for Economic Cooperation and Development, although it represents a modest increase from the record low of 0.22 percent of U.S. gross national product recorded in 1977.

The United States has supported a number of measures to increase the availability of financing to countries facing balance-of-payment problems, particularly through additional facilities in the International Monetary Fund. But the United States has been less responsive toward rescheduling debt or other forms of debt relief, a major demand of the developing countries. The industrial countries have agreed to consider relieving the debt of the poorest countries by easing the terms on past loans that most of these countries have received. A number of donor countries have already granted debt relief to the poorest countries. But the United States has yet to implement its debt relief program because of the lack of necessary legislative action.

To its credit, the United States has focused on certain issues of concern to developing countries, producing some highly positive results. The negotiation and passage of a new Panama Canal treaty signaled the willingness of the United States to deal with third world nations on a more equal footing. American efforts to reach peaceful settlements to conflicts in the Middle East and southern Africa have been commendable. The United States has taken the lead in extending relief to Vietnamese and Cambodian refugees, but in the latter case the momentum for assistance came from private initiatives rather than from the administration or Congress.

The Carter administration's emphasis on human rights has received a mixed reaction from the third world. The priority placed on human rights has drawn some criticism and has complicated the administration of foreign policy, but it has also attracted international attention to individual freedoms. President Carter has correctly defined human rights as including the satisfaction of at least a minimum level of basic needs, such as adequate food, housing, health care, and education. The long-standing congressional position that U.S. assistance go to the poorest groups within a society has reinforced this theme. Both the human rights and the basic needs themes have been attacked by third world leaders as allowing interference in the domestic affairs of developing countries, limiting levels of aid, and diverting attention from their demands for economic reforms. Many feel that the U.S. commitment toward meeting basic needs has not been backed by concrete actions.

Despite the positive elements of U.S. policy, relations between the United States and the third world have reached a low point in recent years. Americans are frustrated because the United States is not recognized for its good will, and develop-

ing countries wonder why the United States and other industrial countries are reluctant to do more.

To some degree this conflict is inevitable—as long as the United States remains the leading industrial country and there are large gaps in wealth and income between the rich and poor countries. However, the current feeling of mutual distrust and even antipathy can perhaps be reduced if both North and South will step back from their strategies of confrontation, reassess the needs and capabilities of the pertinent countries, and design realistic policies to improve the workings of the international economy and the development prospect of the third world.

PRIORITIES FOR THE NEXT DECADE

The increasing importance of the third world in the international economy and basic differences over the functioning and management of the economic system suggest a number of general policy directions for the United States and other industrial countries, developing countries, and all countries combined. The North needs to develop an understanding of its interests in the developing world; the developing countries must acknowledge their stake and responsibilities in the international system.

The North must come to realize that it has a substantial economic interest in the present and future prosperity of the South and that there are a number of fruitful areas for mutually beneficial cooperation. Serious attention should be given to efforts assuring that the developing countries become an integral part of the engine of world economic growth. The adoption of coordinated fiscal and monetary policies by the countries of the Organization for Economic Cooperation and Development in order to revive economic growth, control and reduce inflation, and correct current account imbalances are critical economic objectives that will also benefit the developing countries. It will be difficult, however, for the industrial countries to achieve these goals in an unhealthy international economic environment. In short, strong economic performance in the developing countries will support strong economic performance in the industrial countries.

For their part, the developing countries should take into account the legitimate concerns of the industrial countries when formulating their proposals. The refusal of developing countries to discuss the energy supply issue in the context of the North-South dialogue has alienated the North and precluded serious negotiations on other economic matters. The third world also needs to acknowledge that not all their economic proposals are in their interests nor do all necessarily lead to either greater international efficiency or greater equity.

These general policy orientations can be translated into several specific courses of action for the 1980s, which do entail some short-term costs. The United States and other industrial countries should increase their efforts to enhance economic progress in the developing countries, both on humanitarian grounds and for their own long-term self-interests. The United States should play a major role in the initiation of these efforts.

In the area of trade, there needs to be a renewed commitment to liberalization, not only in accepting the new codes established at the Tokyo Round but also in further negotiations to reduce existing quantitative restrictions on imports from developing countries. The United States should press for agreement on an acceptable safeguards code that requires discipline on the part of countries imposing temporary import controls. In fact, given the complexity of negotiations and their usefulness in containing protectionism, preparations should soon be made for a new round of trade talks in the 1980s to focus on North-South trade issues. At the same time, major initiatives are needed in the North to assist workers, industries, and communities affected by changing trade patterns and other dislocating factors. Current policies of adjustment assistance are almost totally inadequate to deal with the shifts in patterns of production needed in the decade ahead to meet the needs of both the United States and developing countries. In their place, a set of comprehensive industrial policies is needed, one that does not isolate trade as the only cause of dislocation and that anticipates structural change.

U.S. export performance will also have to be improved in order to respond to a more competitive international environment. This will require a reassessment of export policies both by private firms and by the U.S. government. The recent reforms in the trade structure of the U.S. government are a beginning, but American business will have to play a major role. Care must be taken to ensure that these reforms do not increase the leverage of groups interested in protection, and that trade policy takes into account the needs of developing countries.

The industrial countries should demonstrate their commitment to increase development assistance by moving as rapidly as possible toward the goal of transferring 0.7 percent of gross national product to developing countries as concessional aid.

This does imply a shift in priorities, but not one of great magnitude. In recent years, for example, U.S. federal budget outlays on domestic social programs have been over forty times as large as U.S. foreign economic assistance expenditures. Most of the additional aid should be directed at meeting basic needs in the poorest countries and in the poorest sectors within middle-income developing countries. This will require new types of cooperation with recipient countries and new strategies to make industrialization objectives compatible with efforts to overcome the worst aspects of absolute poverty.

The industrial countries must also increase investment in the key sectors of food, energy, and raw materials in both developed and developing countries to reduce bottlenecks and inflation and assure adequate long-term supplies throughout the world. Private firms doing business in the third world have to pay closer attention to the development needs of those countries. At the same time, developing countries must realize that these firms need some degree of certainty about the conditions and rules under which they operate. In addition, greater levels of investment will be enhanced by more cooperation between the private and public sectors, such as joint financing in which private banks participate in World Bank investment projects.

In the 1980s the developing countries will also have to acknowledge the differentiation among their own countries and to recognize the economic needs and constraints of the industrial world without jeopardizing their own progress. Policymakers in these third world countries need to accept the premise that mutual benefits imply mutual responsibilities, and that a new economic order must also benefit the industrial countries. The economically advanced developing countries must assume a growing share of responsibility for increasing the efficiency and equity of the international economic system by opening up their markets to both rich and poor countries, and eventually by extending assistance and preferences to the poorer developing countries. In addition, these countries should recognize that too rapid a disruption of existing trade patterns will lead to a backlash detrimental to both rich and poor countries. Thus, increasing but nondisruptive access to markets of the developed world should be negotiated. Developing countries also need to expand their domestic markets and lower their barriers to trade among themselves in order to raise their total exports and decrease pressures on economies of the North. Third world countries also need to implement the difficult domestic economic measures necessary to meet the basic needs of their poorest inhabitants, both for their own sake and to meet the legitimate concerns of those in the North who feel that equity within nations is as important as equity among them.

Finally, developed and developing countries must together seek new methods to arrive at mutually beneficial changes in the existing international economic system. This will require shifts in perceptions and in procedures. Both North and South must begin to show a greater sensitivity to the concerns and needs of the other side and find areas of common interest where progress is possible. Reaching agreements on substantive issues such as trade in energy products, manufactures, commodities, international investment, finance, debt, and rules for governing the exploitation of global resources will require reforms of institutions and of the negotiating process itself. Currently negotiations are hampered because international institutions are either dominated by the rich countries (as in the case of the International Monetary Fund) or by the poor ones (such as the UN Conference on Trade and Development) or, like the UN General Assembly, because they include so many participants that detailed negotiations are cumbersome. Attention must also be given in some cases to changing the rules or membership of existing institutions to increase the participation of the developing countries. Where necessary, new institutions may have to be created to deal with special circumstances. In the new International fund for Agricultural Development, for instance, voting power is shared equitably between donors and recipients and between developed and developing countries. In sum, the North, and particularly the United States, must overcome the strong aversity to innovations in the rules and institutions regulating economic relationships between developed and developing countries. The South, in turn, must enter into negotiations with a much more realistic appraisal of what can and should be accomplished to make the international economy more efficient and equitable.

Progress toward better North-South relations will not necessarily come smoothly and harmoniously; the choices are not easy, and one should not underestimate the necessary adjustment and costs in the short run. Policymakers should expect a high degree of volatility in the third world. Most developing countries have relatively short histories as independent nations, and so they are still groping for economic and political structures capable of achieving their various objectives. Change involves conflict, and the United States and other industrial countries must be prepared to live with conflict that arises from changes in policies and governments in the third world. The unity of the developing countries will remain strong, however,

despite their growing economic and political diversity because they share a common set of interests. The leaders in industrial countries must therefore develop policies that respect that sense of unity while also reflecting third world diversity.

The world economy has changed considerably over the past decade, and adjustments to those changes are required by both industrial and developing countries. Urgently needed is a new program of global cooperation that gives priority to increasing the efficiency and equity of the international economy. Progress toward achieving these goals depends to a large extent on the willingness and ability of the United States to take the lead in North-South relationships in the next decade.

APPENDIX 3

(From the Journal of Commerce, Apr. 11, 1980)

TRADE DIVIDEND SEEN WAY TO END NORTH-SOUTH IMPASSE¹

(By Richard M. Seifman)

A new round of global economic negotiations is in the blueprint stage. The talks, endorsed by the United Nations General Assembly last year, will involve all UN members and will range from matters of trade and development to energy, raw materials and finance.

So far there is little to suggest that Western industrialized and developing countries are conjuring up new approaches to avoid deadlocks which have plagued past North-South encounters. But the potential for progress is considerable if the global negotiators are willing to take a new look at some of the "radical" solutions first articulated by developing countries in the mid-1970s.

TOUCHY QUESTIONS

Take the touchy questions of indexation and automaticity. Developing countries have vigorously maintained for at least the last five years that the price of raw materials should be "indexed," or tied in some formal fashion, to the price of industrial goods in order to protect the Third World from the ravages of inflation. These countries have also insisted that industrialized nations pledge at least 0.7 percent annually of their gross national product as official development assistance. Further they have asked that this aid be given automatically on an annual basis and that it be assured.

While a few industrialized countries (Sweden, Norway, the Netherlands) have already reached the target, most other industrialized nations have flatly rejected these concepts. But these notions might be profitably applied to trade in a very different way, paving the way for North-South accommodation and putting pressure on the OPEC nations to restrain oil price increases.

How could this be done? Many industrialized nations, certainly the United States, have suffered negative trade balances with the so-called developing world (it includes the OPEC states). If industrialized nations promised that improvements in their trade balance will lead to incrementally increasing their concessional foreign assistance to the least developed countries, the North-South dialogue might be well advanced. (For argument purposes, let us say the least developed countries are defined as those countries where the capita income in 1978 dollars is under \$500.)

Suppose, for example, that the U.S. trade deficit with the developing world was \$10 billion one year and \$9 billion the following year. And suppose, once again, that industrialized nations had agreed during the course of the upcoming global talks that each nation would contribute 5 percent of the improvement in its trade balance with all developing countries to a multilateral recycling mechanism, such as the International Development Association.

The money collected—a "trade dividend," in effect—would be distributed among the least developing countries in the form of highly concessional foreign assistance, essentially grants. In this example the United States would increase its foreign aid by \$50 million. Such an agreement might also provide that an industrialized nation would raise its percentage contribution, say to 7.5 percent, if its trade account with the developing world moved from deficit to surplus.

Generally speaking, relating an industrialized nation's trade account improvement to the demand by developing nations for more concessional foreign assistance should be attractive domestically to both the majority of poor countries and the advanced nations as well. Granted, developing countries also aspire to have trade surpluses, too, and this approach in some sense makes larger trade deficits with the advanced countries a virtue.

But trade deficits are a fact of life for many developing lands and there are other institutions to monitor and attempt to limit excessive deficit spending, such as the International Monetary Fund.

Since the trade figures would be aggregated, given the orders of magnitude involved, any one country's effort to expand its exports or imports would have little effect on the total amount of assistance generated.

(Conceivably it might also act as a stimulus for expanding economic activity between developing countries, something they claim they very much want.)

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In addition, this trade/aid scheme would carry the advantage of putting increased pressure on the OPEC cartel to restrain price hikes. Ever since the global negotiations were first proposed, Western industrialized countries have sought to forge a link with oil deficit developing nations, who are also burdened by OPEC price increases. Western hopes were deflated when OPEC nations managed to strike a deal this past Fall in which the oil deficit developing countries once again turned down the criticism at least temporarily in exchange for additional OPEC aid commitments.

Whether the 1979 deal will stick as the price of oil continues to climb even higher is far from certain. What does seem clear is that a trade and linkage would result in more pressure on OPEC. Continued OPEC price increases, after all, create very unfavorable Western trade balances with the developing world. Under the trade and scheme, higher oil prices leads to worsening trade balances, which in turn leads to reduced foreign assistance and this translates into increased pressure on OPEC from needy Third World countries.

One would have to look carefully at all the ramifications of such a proposal. For instance, the multilateral trade agreements reached in 1979 would have to be looked at to decide whether this trade/aid concept runs counter to either their general principles or specific provisions concerning preferential trading inducements. Nevertheless, if a proposal along these lines had some prospect of success, countries can modify existing policies if they want to.

Tying aid to trade in this way is in some respects a radical step for the West, although the Soviets have been applying a variation of this concept for years in their bilateral relations. Without new, even radical, ways of looking at old problems, the UN's global economic negotiations may turn out to be an exercise in stale rhetoric and mutual disappointment.

[From the Journal of Commerce, Tuesday, Jan. 22, 1980]

THE VENICE SUMMIT AND THE LAUNCHING OF U.N.'S GLOBAL ECONOMIC NEGOTIATIONS*—A NORTH-SOUTH PERSPECTIVE

(By Richard M. Seifman, Executive Director of the Economic Policy Council of the United Nations Association of the United States)

The seven major industrialized nations of the West recently announced plans for their next annual economic summit. At about the same time, the U.N. General Assembly adopted a resolution approving the launching of a round of global economic negotiations in the fields of raw materials, energy, trade, development, money and finance. Initially put forward by the developing countries, the resolution calls for action-oriented, time limited negotiations on these major issues. The agenda and procedures are to be worked on between now and the commencement of a Special U.N. Session on economic matters calendared for late summer 1980. It is recognized that the success of the global economic negotiations depends on "the full commitment of all participants to careful and thorough preparations." Adopted without vote by all 152 U.N. member states, the resolution now has the imprimatur of not only developing nations but western industrialized and Eastern European Bloc countries as well.

Past U.N. performance on global economic issues has been mostly strong on rhetoric and weak on result. Thus some seasoned observers dismiss this new macroeconomic negotiation effort as but another grandiose plan which will sputter in the face of economic realities, misplaced even within the U.N. system because technical negotiation requires technical secretariat support (e.g., commodity specialists, energy economists) and there is little likelihood such impartial expertise will be provided for. They point to recent attempts outside the U.N. system with fewer participants and narrower focus which nevertheless concluded with minimal result. The Paris Conference on International Economic Cooperation (CIEC) involved less than 30 nations from developed and developing countries, met for over 18 months, and for the most part left little of lasting impression on the economic landscape. (And it did not even include the Eastern Europeans!)

SIGNIFICANT DIFFERENCES

There are significant differences now, however, strengths inherent in this new initiative which did not exist in earlier attempts, and a vastly changed economic world. The most obvious difference is the inclusion of energy in the original developing country proposal. (This group includes both OPEC countries and those most

* Journal of Commerce, Jan. 22, 1980. Reprinted by permission.

affected by energy price rises.) Experienced international negotiators will tell you that once a subject is put on an agenda it is difficult either to predict its outcome or remove it without collapsing the whole process. Whatever may have been the complex reasoning which brought us to this point, it is a multilateral gambit of some risk for OPEC, already divided on oil prices and production levels, its responsibilities to other developing countries, and the increasing use of oil as a political weapon.

There are other changes which will alter the negotiating environment from that of the past: progress on a Common Fund for commodities, completion of the multilateral trade negotiations, modification in IMF machinery, all shape the nature of future negotiating sessions. On many of these issues we now know better some of the outer parameters and modalities than we did in the 1970s. It does not mean the differences will be settled, but at least we need not start from near scratch.

Thus, whatever the final results of the U.N. effort, it would be a mistake to begin this process convinced either that it was irrelevant or foredoomed to failure. The developing countries apparently take their initiative seriously, and Western leaders would be wise to do likewise. The events at the Summit in Venice this summer will be scrutinized closely by the developing world for signs of intent. Inclusion of this undertaking in the ministerial preparations prior to the Summit and a balanced paragraph in the customary closing Summit communique which expresses Western intentions to constructively work toward the success of the global economic negotiations could have considerable legitimate benefit at modest cost. A review of shifts between economies to better identify who has lost and who has gained would be a further step toward careful preparations for the negotiations which follow.

On second thought, an expression of good intent may be the only positive thing the seven Western leaders will be able to agree on six months hence.

APPENDIX 4

LETTER DATED JUNE 3, 1980, TO HON. JONATHAN B. BINGHAM FROM
HON. J. BRIAN ATWOOD, ASSISTANT SECRETARY FOR CONGRESSIONAL
RELATIONS, DEPARTMENT OF STATE

DEPARTMENT OF STATE,
Washington D.C., June 3, 1980.

DEAR MR. CHAIRMAN: Since Mr. Cooper is traveling out of the country this week, he has asked me to respond to the questions you asked at last Thursday's hearings on North-South issues. You requested comments on the Common Fund and on the issue of technology transfer to developing countries.

As a concept, the Common Fund has not lost appeal for the developing countries, which continue to be concerned with commodity market and price instability. As a new financial institution to help finance international commodity agreements (ICAs), the Fund retains its place as the centerpiece of the Integrated Program for Commodities.

It is true, however, that LDCs' perceptions of their most vital interests have shifted somewhat in recent years away from commodity issues and toward problems of balance of payments, energy, and the development of export markets. This has drained some enthusiasm from the Fund negotiations. Moreover, the March 1979 Framework Agreement essentially settled the Fund as a political issue. Since then, work in the Interim Committee has been concerned with highly detailed and technical drafting. G-77 negotiators view this as an exercise of less immediate interest, particularly since the Fund, as it has evolved, differs significantly from what the LDCs had originally suggested at UNCTAD IV in 1976. Rather than governments contributing to a central multi-billion dollar fund to be used for financing commodity stabilization, we now have an arrangement which relies primarily on pooling the resources of the various commodity organizations themselves. This lack of attention among the G-77 has been a problem for industrialized countries in seeking to produce workable and responsible Articles of Agreement.

We are hopeful, however, that at the upcoming round of negotiations in June, the few remaining but difficult issues can be resolved, enabling the conference to conclude successfully.

Regarding technology transfer, you expressed some surprise that this still appears to be a "hot" issue. Frequently, the high level of attention the issue receives results from its being defined broadly to include other economic concerns such as industrialization, "redeployment" of industries, development assistance, and multinational corporate behavior in developing countries. Many of these more contentious issues were raised forcefully by the G-77 at the January UNIDO Conference, which resulted in polarized debate producing few results.

We agree with you, Mr. Chairman, that if defined more exactly, the issue of technology transfer would arouse less political attention. Most U.S. technology and relevant know-how is privately owned but generally available for use under appropriate licensing agreements. Further, considerable technology is in the public domain and freely available. There are only two multilateral negotiations currently in progress: the UNCTAD Code of Conduct on the Transfer of Technology, and the Revision of the Paris Convention for the Protection of Industrial Property taking place in the World Intellectual Property Organization. These negotiations, which have now moved from the preparatory to the formal conference stage, have not yet made much progress, but discussions have been serious and not really confrontational.

The real problem is the inability of the developing countries to apply the technology to the problems they face. This is a pressing issue, and, therefore, we participated in and supported the results of the UN Conference on Science and Technology for Development. The participants agreed to the establishment of a central focal point in the UN for discussion of science and technology issues, and also created a funding mechanism in the UNDP for the applications of science and technology in developing countries. Also, the Administration, as you know, has proposed creating the Institute for Scientific and Technological Cooperation, which is intended to promote the application of U.S. technology to the problems of developing countries.

Sincerely,

J. BRIAN ATWOOD,
Assistant Secretary for
Congressional Relations.